EQUITY RESEARCH

Fiducian Group

Initiation of coverage – just warming up …

We initiate coverage with a buy rating. Our DCF/EV/EBITDA combination valuation is $8.56 per share.

Positives include: -

- Continued FUMAA inflows driven by strong "manage the manager" performance, competitive and comprehensive advice and platform offers.
- Fiducian has the ability/optionality to buy bolt-on client books and financial advice businesses to add scale and operating leverage.
- Past acquisitions are starting to deliver, contributing to inflows and sales/profit growth. Fiducian also carries a materially higher FUMAA base into FY24 and FY25 and has absorbed fee reduction and cost increases in previous periods.
- Internally developed platforms, portfolio, and administration systems that can be rolled out to the external market. This includes the fund's management – "manage the manager" product family and the Auxilium platform – an internally developed fund platform that will (and is) compete with HUB/ Praemium, Netwealth, and the others.
- The recent Q324 4C quarterly FID update (done voluntarily) shows strong trading with cash receipts of +$21.6m, cash from operations of +$4.7m (including IT costs), and cash of $20.4m (having just paid the material dividend) combined with FUMAAS $13.7bn (up from $12.9bn – 31st Dec 2023).

Valuation commentary – risk/reward very attractive: -

- We derive a valuation of $8.56 per share using a combination of EV/EBITDA and DCF.
- On a FY24E P/E of 17.5X with cash on the balance sheet and a 4.6% FF yield.

Risks – (include but are not limited to): - regulatory change, succession, loss of advisers, cost inflation, client claims, financial markets, legal problems, new financial products (AI/cryptocurrency/ETFs), competition, cyber security, maladministration by staff/advisers, acquisitions, adverse behaviour by external parties, reliance on in-house expertise, the performance of investments, Technology risks and inability to access insurance.

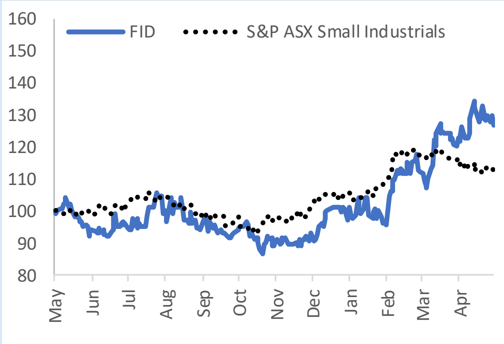
FID.ASX — Buy

Tuesday 14 May 2024

Share Price	$7.99
Price Target	$8.56
Valuation Method	DCF/EV/EBITDA
Market capitalisation	$252m
Enterprise value	$232m
Sector	Financial services/advice
12 month price range	$5.29-$8.37
Ave.vol - 90 days	23,511
Shares in issue	31.5m
Top 20 holders	71%
Previous rating	Initiation

June y/e $m		FY22	FY23	FY24E	FY25E	FY26E
Sales	$m	69.5	73.3	81.3	89.3	97.0
Growth	%	18.2	5.4	10.8	9.9	8.5
EBITDA	$m	22.9	21.5	24.4	28.0	31.7
Margin	%	33.0	29.3	30.1	31.3	32.7
NPAT	$m	13.3	12.3	14.4	17.3	20.0
EPS (norm)	¢ps	42.2	39.0	45.6	54.8	63.3
CFPS	¢ps	57.4	44.0	60.0	62.5	72.9
DPS	¢ps	29.7	30.3	36.5	38.0	40.0
Franking	%	100%	100%	100%	100%	100%
Dividend Yield	%		3.8%	4.6%	4.8%	5.0%
PER	x	18.9	20.5	17.5	14.6	12.6
EV/EBITDA	x	10.1	10.8	9.5	8.3	7.3
EV/EBIT	x	12.3	13.9	11.9	9.9	8.6
Fixed charge cover	x	n.m	n.m	n.m	n.m	0.0
Net Cash	$m	17.5	19.6	24.1	28.9	36.3

Fiducian vs. ASX Small Industrials



source - Factset

Fiducian Group (FID) – quality financial advice business. It owns and operates specialist financial planning network (both salaried/franchised), funds management (manager of managers) and Platform administration (developed in-house). Services include direct portfolio, SMA, client admin, IT /technology and specialised distribution.

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Fiducian Group $ 7.99 — Valuation: $8.56 ps

Financial Performance (A$m)

Year ended June 30	FY23	FY24E	FY25E	FY26E
Sales	**73.3**	**81.3**	**89.3**	**97.0**
Operating costs	51.8	56.8	61.3	65.2
EBITDA	**21.5**	**24.4**	**28.0**	**31.7**
Depreciation and amortisation	(4.8)	(4.9)	(4.6)	(4.7)
EBIT	**16.7**	**19.5**	**23.4**	**27.1**
Associate income				
Net interest	1.0	0.8	0.9	1.1
Pre-tax Profit	**17.7**	**20.3**	**24.4**	**28.1**
Tax	(5.3)	(5.9)	(7.1)	(8.2)
Profit attributable to minorities	12.3	14.4	17.3	20.0
One off items (post-tax)	0.0	0.0	0.0	0.0
Reported profit to holders	**12.3**	**14.4**	**17.3**	**20.0**

Cash Flow Statement (A$m)

Year ended June 30	FY23	FY24E	FY25E	FY26E
Operating EBITDA	**21.5**	**24.4**	**28.0**	**31.7**
Interest/Tax Paid/rent	(9.2)	(10.0)	(10.7)	(11.7)
Working Cap./other	2.0	5.3	3.4	4.7
CF from ops	**14.3**	**19.7**	**20.7**	**24.7**
Maintenance Capex	(0.4)	(0.8)	(1.0)	(1.7)
Acquis/exp capex	(1.5)	(3.0)	(3.0)	(3.0)
Investing Cashflow	**(1.9)**	**(3.8)**	**(4.0)**	**(4.7)**
Dividends	(8.6)	(11.5)	(12.0)	(12.6)
Equity/other/debt	(1.7)	0.0	0.0	0.0
Financing CF	**(10.2)**	**(11.5)**	**(12.0)**	**(12.6)**
Net Increase/(decrease)	2.2	4.5	4.8	7.4

Balance Sheet (A$m)

Year ended June 30	FY23	FY24E	FY25E	FY26E
Cash	19.6	24.1	28.9	36.3
Receivables	9.5	10.6	11.6	12.6
Financial assets	0.0	0.0	0.0	0.0
Current Assets	**29.2**	**34.7**	**40.5**	**48.9**
Property, Plant & Equipment	4.4	3.3	2.7	2.9
Intangibles	28.5	28.5	28.5	28.3
Other non current assets	7.1	8.1	8.9	9.7
Non Current Assets	**40.0**	**39.9**	**40.1**	**40.9**
Total Assets	**69.1**	**74.5**	**80.6**	**89.8**
Payables	9.3	10.6	11.6	12.6
Provisions	4.3	5.3	4.5	4.8
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	4.6	4.9	5.4	5.8
Total Liabilities	**18.2**	**20.7**	**21.4**	**23.3**
Shareholder Funds	**50.9**	**53.8**	**59.2**	**66.6**

Valuation Metrics

	Valuation	Premium
Price Target (ps) - DCF	$8.56	7%
Share Price (ps)	$7.99	
FY24 EV/EBITDA (x)	9.5	
Implied FY25 EV/EBITDA (x)	8.3	
Implied FY26 EV/EBITDA (x)	7.3	
Market Capitalisation (A$m)	251.5	
Enterprise Value (A$m)	231.9	
Share count (m)	31.5	
Franking credits ($m)	26.3	

Valuation Multiples

Year ended June	FY23	FY24E	FY25E	FY26E
P/E (x)	20.5	17.5	14.6	12.6
Price/Cash Flow (x)	17.7	12.8	12.2	10.2
EV/EBITDA (x)	10.8	9.5	8.3	7.3
EV/EBIT (x)	13.9	11.9	9.9	8.6
Equity FCF yield (%)	6%	8%	9%	11%
Dividend yield (%)	3.8%	4.6%	4.8%	5.0%
Price to book value (x)	5.0	4.7	4.3	3.8

Per Share Data

Year ended June 30	FY23	FY24E	FY25E	FY26E
EPS diluted - adjusted (¢ps)	**39.0**	**45.6**	**54.8**	**63.3**
EPS diluted (¢ps)	45.6	54.8	63.3	71.2
Cash flow per share (¢ps)	45.2	62.5	65.7	78.3
Free cash flow per share (¢ps)	44.0	60.0	62.5	72.9
Cash (¢ps)	62.2	76.3	91.5	115.0
Net assets (¢ps)	161.3	170.5	187.4	210.8
DPS (¢ps)	30.3	36.5	38.0	40.0
Franking (%)	100%	100%	100%	100%
Shares on issue - avg. basic (m)	31.5	31.5	31.5	31.5
Shares on issue - avg. diluted (m)	31.6	31.6	31.6	31.6

Drivers ($Am)

Year ended June 30	FY23	FY24E	FY25E	FY26E
Funds Mgt	20	22	26	30
Financial Planning	28	28	30	32
Platform admin	15	16	17	19
Corp services	11	15	16	17
Sales (net)	**73.3**	**81.3**	**89.3**	**97.0**
FUMAA $m	**12,340**	**13,900**	**15,410**	**16,920**
	1,400	1,560	1,510	1,510
Advisors (people)	80	80		

Directors

Directors	Shares	Holding
Mr Indi Singh (founder) Exe.Chair	10.9m	34.6%
Mr F Khouri - NED	0.3m	0.8%
Mr S Hallab - NED	0.1m	0.3%
Ms K Skellern - NED	0.0m	0.0%
Total	**11.3m**	**36%**

Key personnel

Mr Rahul Guha - Exe Chair - Financial Ser

Major Shareholders

Major Shareholders	Shares	Holding
Mr Indi Singh (founder)	10.9m	34.6%
HSBC - Nomin	2.5m	7.9%
London City Equities (LCE.ASX)	2.1m	6.7%
Total	**15.5m**	**49.2%**

Performance Ratios (%)

Year ended June 30	FY23	FY24E	FY25E	FY26E
Change in sales	3.8	7.9	8.1	7.6
Change in EBITDA	(1.4)	2.9	3.6	3.7
Leverage		37%	44%	49%
EBITDA Margin	29%	30%	31%	33%
Tax rate	30%	29%	29%	29%
ROE	24.2%	26.8%	29.2%	30.0%

Balance Sheet Ratios

	FY23	FY24E	FY25E	FY26E
Net cash/(debt) ($ m)	19.6	24.1	28.9	36.3
Fixed cover charge	n.m	n.m	n.m	n.m

Explicit guidance commentary — Double digit earnings growth coming years

Aug-23

Source: Company data, Veritas Securities Research

Introduction to Fiducian

Fiducian operates in three main arenas of financial services: -

Financial planning operates via salaried and franchisee structures

Fiducian owns or franchisees its financial advice business, this differs to many others

1. **Financial planning: -** provides specialised financial planning with 45 locations (across all of the major capital cities and many regional centres within Australia). This business is split about 50% / (41 people) as salaried advisers and about 50% (39 people) as franchisees and has a total of 80 financial advisers. Financial planning had $4.6bn in Funds Under Advice (FUA). Fiducian also acquired the PCCU[1] financial advice businesses during FY22. By owning and controlling the financial planning business (not offering AFSL services/licensing), Fiducian makes a difference to others. Fiducian has retained consistently high levels of compliance and control over this planning/advice, its activities, and its client base over many years. The Fiducian business is underweight (in terms of numbers) in Queensland, WA, and South Australia and can also expand into metropolitan population centres.

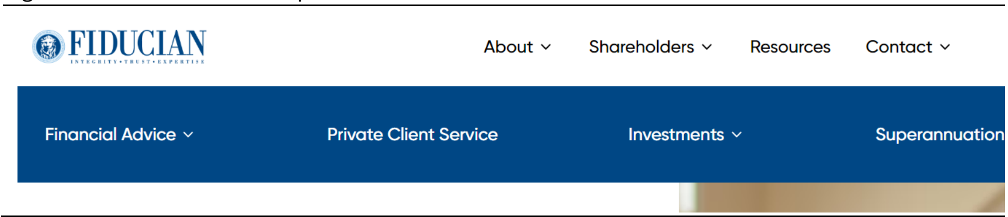
2. **Platform administration:** This division offers portfolio wrap administration for superannuation and investment services to Fiducian Financial advisers and ultimately their investor clients. The software was developed in-house and has been in use for many years. The products include the "manage the (fund) manger" products and SMA's which offer direct access to a small number of shares and funds that are separately managed for investors. Many products are used in-house and some have an increasing external adviser re-badged potential to independent financial planners.

Internally developed advanced platform and administration systems

   Fiducian has now released a platform administration business called Auxilium for the external independent financial planner market. This will compete with Netwealth, Hub24, and Praemium –and has been labelled the disruptor to the disruptors (of the legacy platforms).

3. **Funds Management: -** Fiducian has developed a "manage the manager" system of investments and manager selection. This has been developed through in-house expertise and does not rely on external asset consultants. The track record of fund manager selection has been extremely strong. Fiducian puts considerable expertise, time, experience, and research into picking high-quality fund managers that blend well with their current roster and reflect the underlying investor's needs. Fiducian is the entity responsible for managing investment schemes and SMAs. The group is the registrable superannuation entity of a public offer superannuation fund, which is then offered by the wrap platform. The group is also the operator of an investor-directed portfolio service.

Figure 1: Website – Fiducian profile of services



Source: FID Website

[1] PCCU – People's Choice Credit Union (PCCU) – Financial advice business

Fiducian provides an array of ancillary services to support the significant divisions within the business, such as technology, product development, IT systems development for financial advice and planning, product distribution, compliance, trustee, and training. Product names include FORce and FasTrack. Fiducian was also an early-developed online reporting tool with a click to the underlying asset/share functionality.

Fiducian's philosophy: -

Planners have an outward focus toward clients and are not expected to pick stocks, markets or fund managers

1. Financial planners must always have appropriate training and qualifications.
2. Use proven Fiducian systems and processes.
3. Use and understand Fiducian "manager the manager" as a preferred method for almost all clients. This also reduces the inefficiency of endless marketing meetings by fund manager BDM's trying to get on the system by appealing to individual financial planners.
4. Regular face-to-face compliance checks are required, and divergence is not an option. This also includes sampling, spot-checking, and parallel checking (determining whether another planner would provide identical/similar advice).
5. Either salaried or franchised planners in terms of core business. Fiducian offers "manage the manager " to external fund managers along with the Fiducian platform. Fiducian does not offer AFSL's / or other non-investment business services to external advisers..
6. Fiducian prefer that financial planners do not "pick individual stocks" and /or choose individual fund managers. When in the client's interest, Fiducian prefers planners to use in-house systems and processes.
7. Prefer team-based, family culture rather than a star-based system.
8. Provide one support person to each Financial planner (where possible). Fiducian finds this is effective and efficient.
9. Planners focus on developing and growing holistic financial services rather than watching financial markets and trying to pick winners.

Strong compliance and adherence to the Fiducian system have kept claims/complaints low

The goal is not to dilute this culture, with exceptions. If someone does not like this format, Fiducian prefers that they self-select and work elsewhere…

Figure 2: Breakdown of service offerings

Operates investor directed Portfolio service	RE for Funds management and SMA's
Trustee for Portfolio service	Specialist financial planning
Provision of client account administration systems	Development of systems for financial planning and wrap platform
Distribution of products and services	Offer platform to external financial planners via Auxilium

Source: Fiducian

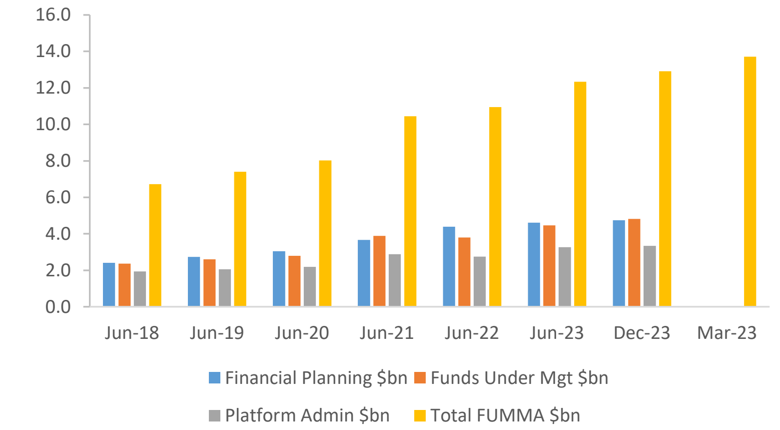
Fiducian's service and product offerings are comprehensive. Fiducian can offer lower fees for the Planner (and the clients), better flexibility, greater compliance, faster system changes and updates and a more significant share of the value chain for investors, and planners.

Investment case for Fiducian

Fiducian is growing its adviser client base, funds under advice, funds under management and funds on platform, which collectively provide ongoing operating leverage to the business.

Steady growth of all major products – fed by inflows, strong performance and solid expertise

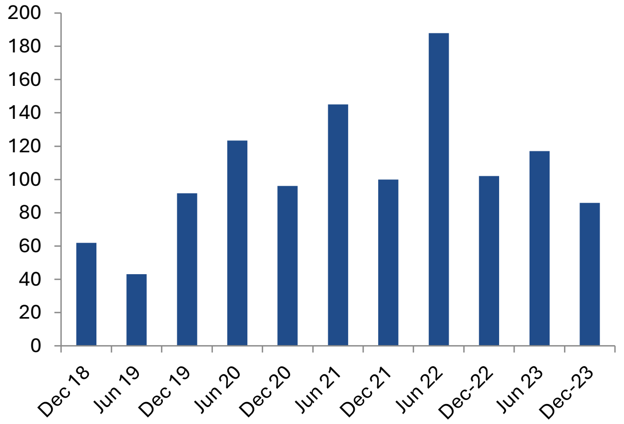
Figure 3: Steady growth of Fiducian's various fund businesses ($bn)



Source: Company data

Funds growth is fed by a healthy and consistent rate of inflows into Fiducian.

Figure 4: Core Platform net inflows – six monthly ($m)



Source: Fiducian 1H24 Presentation

This is as a result of solid manager selection (amongst a range of drivers)

Figure 5: Manage the manager selection/performance

March 2024 Returns and Rankings										
FIDUCIAN FUNDS	**1-Year return (Ranking) p.a.**		**3-Year return (Ranking) p.a.**		**5-Year return (Ranking) p.a.**		**7-Year return (Ranking) p.a.**		**10-Year return (Ranking) p.a.**	
Capital Stable	7.7%	**3/42**	2.6%	**12/38**	3.6%	**8/35**	4.0%	**7/35**	4.5%	**4/30**
Balanced	13.7%	**7/117**	5.6%	**19/112**	7.0%	**4/102**	7.2%	**3/96**	7.8%	**2/83**
Growth	15.7%	**16/160**	6.5%	**50/152**	8.0%	**8/144**	8.1%	**6/139**	8.7%	**3/128**
Ultra Growth	17.0%	**37/88**	4.6%	**78/80**	7.9%	**39/73**	7.9%	**27/69**	9.2%	**4/63**
Other Specialist MTM Funds										
Technology	35.0%		1.7%		10.7%		12.2%		15.2%	
India	34.0%		15.7%		12.3%		10.2%		14.8%	
Note: Perf. ranking of diversified funds Cap Stable, Balanced,Growth and Ultra Growth Funds are based on comparable funds from Zenith										
Net of fees										

Source: Fiducian 1H24 result presentation and industry sources

We also believe that FID adviser numbers continue to grow organically vs. other many other industry players that are highly likely to still be losing advisers.

Fiducian provides financial advice to between 15-20K people.

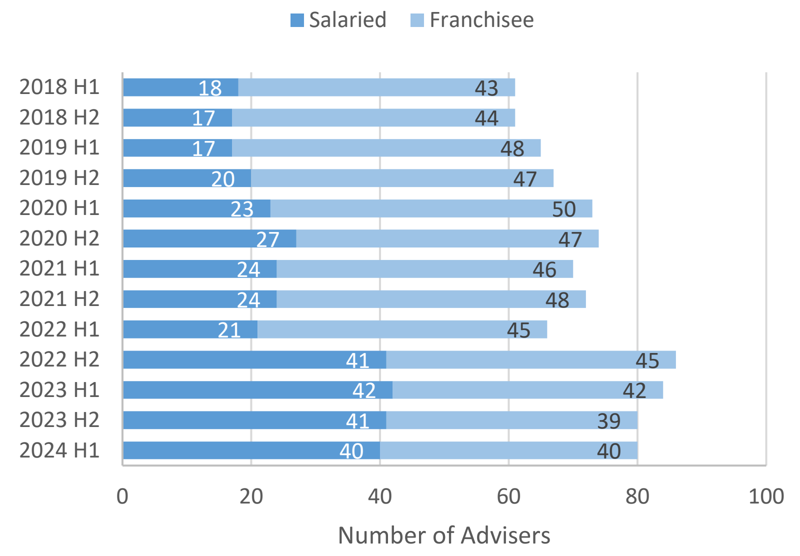
With 80 advisers, Fiducian has a tiny market share of 50bp of the 15,000 adviser industry.

150 is a realistic medium-term target

Conversion of clients across to Fiducian systems takes time.

After approximately three years, the process will have run its course

Figure 6: Growth of financial advisers, both salaried and franchisees



Source: Company data

Acquisitions

Fiducian bought People's Choice Credit Union Financial planning business for $12.6m (plus $600k contingent payment). PCCU's financial planning division had a budgeted recurring revenue of $7.6m. PCCU had an initial FUA of $1.1bn and strong financial planning network in South Australia and the Northern Territory. Fiducian took control of PCCU financial planning business in February of 2022. The larger PCCU organisation is a substantial banking and credit union business with over 390k members and will /have provided a financial advice customer referral flow to Fiducian. PCCU has been around since 1949 and was originally the South Australian Public Services Savings and Loans Society. Over time, it has merged with other smaller credit unions. PCCU has 900 employees and total assets of $10.3bn.

Not all planners from PCCU Financial Planning ultimately moved to Fiducian, particularly those who did not want to work under Fiducian's established /defined system and process. About 70% of PCCU's FUA (i.e. of the acquired $1.1bn in FUA) has moved (or is moving across to Fiducian. We estimate that about five planners have not moved to Fiducian, bringing the total number of planners who have moved to about 16.

Fiducian, for example, prefers financial advisers who don't try to "select individual stocks for the client" and don't try to choose fund managers and asset allocation from the client but prefer to use experts. Ideally, the planner will use FID products, platforms, and software. This might not suit some planners trained on /or familiar with external products such as HUB24/Netwealth.

This format may not suit some highly experienced financial planners, who may prefer to have things their way (or their client Base). Of the planners who have come across PCCU, funds and clients have been steadily converted to Fiducian systems. Management notes that this takes time and is ongoing. In addition, Fiducian is the preferred financial planner for People Choice and has attracted a strong referral flow, with 300 financial advice referrals in recent times.

A Fiducian-disciplined and established system is more likely to attract referral flows from PCCU than other alternatives—it lowers PCCU referral risk.

Figure 7: PCCU Financial planning subsidiary acquisition metrics/website snap

PCCU - Fin. Planning	**12 months**
Initial deal	
Rec. rev. $m	7.6
Est. EBIT (20%)	1.9
FUA $m	1,100
Acquisition price	13.2
Staff (all)	40
Date	1st Feb 2022
Final deal	
Clients transitioned	3,500
Planners/moved	16
Revenue that transitioned	5.60
FUA transitioned est. $m	700-800
Paid $m	11
Transitions to FID - FUM	100
100 bp revenue uplift	1.0

Source: FID and PCCU website – we'd note the final acquisition metrics may change due contingent payments, FUA migration etc

Acquired PCCU financial advice business and now get referral flow as well

The financial advice market is still highly fragmented, with over 10,000 advisers (69% of the entire market sitting outside the top 10 players). Of the top 10 players, they are also mostly losing their share of advisers to others, or the advisers are setting up as independents (or leaving).

Fiducian has absorbed some fee cuts and has been able to outgrow this

Fiducian has also been selectively acquiring financial planners (books and/or businesses) that fit Fiducian's tight and dedicated to disciplined financial advice culture. We also believe that Fiducian has a pipeline of books, interested franchisees, and small bolt-on acquisitions that could augment the business's growth.

Revenue and absorbing fee cuts

Fiducian already performed some heavy lifting by absorbing the benefits of about $1m grandfathered fees a few years ago. In late 2022 (June) and therefore 2023, Fiducian lowered fees on some products, which removed about $1m of revenue (that was highly profitable revenue).

Fiducian also expensed all IT costs and has the benefit of both consistent ongoing investment and sunk investment. Larger platforms such as HUB/PPS and Netwealth are all listed and will increasingly find markets looking for profitability (rather than simply FUM or future scale).

The benefit of being a lower-cost provider is that switching is easily explainable as being in a client's best interests and improve the probability of better investment returns. This movement from expensive older platforms will remain ongoing—the targets in this are the higher-expense legacy platform rather than each fintech's own client Base.

Costs

At the same time as adjusting fees, Fiducian has avoided the need to retrench staff, offering CPI pay rises, and continued to pay bonuses – which will help reduce staff turnover (in a market that is increasingly short of qualified staff). Our modelling suggests a predictable cost profile over time between halves and over time.

Market movements

Like all financial advice businesses – a significant correction in financial markets would impact the industry. We have spent some time modelling this impact using some simplifying instructions.

We have used the APRA asset allocation mix for the entire superannuation system as a proxy for Fiducian. Fiducian may have a higher equities mix (perhaps 60-65%) according to their latest portfolio disclosure on their website.

About 50% of the business network is franchised, and some of the equity market risk will lie with the franchisees and not Fiducian (wages/some cost, etc). Our modelling suggests that Fiducian could lose $5m-$6m in revenue in a significant, sustained equity market decline. Given that 50% of the adviser base is franchised, we note that the market leverage to the bottom line might be $3m pre-tax. This risk from a significant equity market decline is very manageable for Fiducian. Consistent inflows, a manager approach, careful mix/blend, and considered asset allocation all help mitigate this risk.

Figure 8: "What if" analysis of equity market decline for Fiducian

	Item		Comment/Assumption
	FUM $m	13,900	Latest FID figures
	Equities (APRA mix)	60%	APRA mix - both Aust and Int equities
	$m Equities	8,340	
	Decline Equities (all year)	-20%	Assumption - for 12 months
	Decline - FUM $	-1668	
	Fees bp	60	Fiducian
A	Revenue hit $m	-10.0	
	Offsets		
	Inflows $m	400	Reflect inflow history 3% of total
B	**Revenue $m**	**2.4**	
	Other assets $FUM	5,560	
	Uplift - other Assets	5.0%	Assumption
	Extra FUM	278	
C	Fees bp	50.0	Assumption less than average
	Revenue $m	**1.39**	
B + C - A	Net Rev. loss	-6.2	

Source: Veritas analysis.

Areas of Opportunity

Currently, Fiducian has approximately 8- 10% of FUM from external fund managers. Fiducian has recently rebadged and opened up its platform to external planners. We have modelled a what-if analysis for Auxilium – assuming that it gains only 500 financial planners (not a 1,000 target from a 15,000 planner market) and the average planner has $40m of FUM, and Fiducian only get 30% of this. At 20 bp – it quickly adds up to a material estimated $12m in additional revenue at high margins; given the platform has already been developed and is managed via internal IT staff/systems. Auxilium has 103 external planners already using it (in some capacity) and over $100m in FUM. Management's results commentary suggests that the pipeline of interested external planners is solid.

Figure 9: "What if" analysis of Auxilium

Auxilium	
Total Planners (Aust	15,000
Addressable market	10,000
Target planners	1,000
Currently planners	100
Say 50% target	500
FUM per planner $m	40
Total FUM $m	20,000
% use Auxilium	30%
FUM $m	6,000
Fee 20 bp	0.20%
Revenue uplift $m	**12.0**

Source: Veritas analysis.

Fiducian also has a very small presence in NZ because it is on the KiwiSaver platform. NZ has proven to be a challenging market to succeed in funds management and financial planning. Existing local players service the market well, and compulsory super is still not a feature of the NZ market. Taxation and capital gains regulations are also very different in Australia. We believe that a small financial advice acquisition might help develop this opportunity for Fiducian.

Internalisation of client's platform needs

Fiducian has a comprehensive, well-performing platform and administration system that is well-priced. When it is (in this order): -

1. In the underlying clients' best interests in terms of cost and simplification
2. Increases the probability of better performance.
3. Provides better administration, control, systems and process.

Movement of funds into the Fiducian system can lead to a 100 bp uplift in the revenue for Fiducian with reduced costs and better administration for the client. Over time, moving funds from external platforms and external fund managers into the Fiducian network would also contribute to better economics for the client, planner, and Fiducian. We estimate that up to $1.5-$2bn in FUMMA may sit on external provider systems (Hub(HUB24, not covered), Netwealth (NWL, not covered) et al)) and that insourcing some of this over time is an area of opportunity for Fiducian.

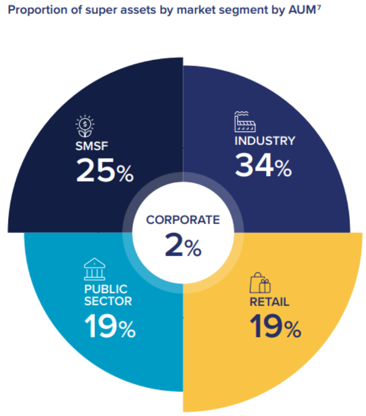
Fiducian can also bring outside money into their system – again opportunity there for self-actualisation.

Financial advice industry[2]

General comment

The adviser market has also undergone a dramatic contraction from 28k advisers to 15k (45% decline) due to the pall of the Royal Commission revelations, volatile markets, and COVID. Other developments that have reduced adviser numbers include increasing qualification requirements, rising licensee and insurance costs, and less-than-ideal execution by major players. It is a fragmented industry with opportunities in adjacent sectors such as the SMSF and industry fund markets (s).

Figure 10: Proportion of super assets by AUM



Source: HUB 24 analyst pack 1H24 and ASFA super statistics Sep 2023

Industry superannuation funds concurrently spent cumulative millions on TV advertising – "compare the pare" advertising, for example, reducing the general public's view and propensity to seek independent advice for their superannuation savings and investment advice.

In the meantime, demand has not changed and has likely increased—more of that later. **We like the investment theme of increasing demand and contracting supply occurring simultaneously…**

The big Australian banks have left the financial advice market. Financial advisers (Fiducian and its advisers) control all advice related to brand-new bank account openings, some lending decisions, selling assets, super, investment, referral flows, and insurance.

Banks may find that exiting specialised financial advice in the very long term will be a poor decision. Over time, banks will be relegated to a commodity position within financial services (albeit with scale).

[2] Some of this material from this report may be used in future initiation reports – stay tunned

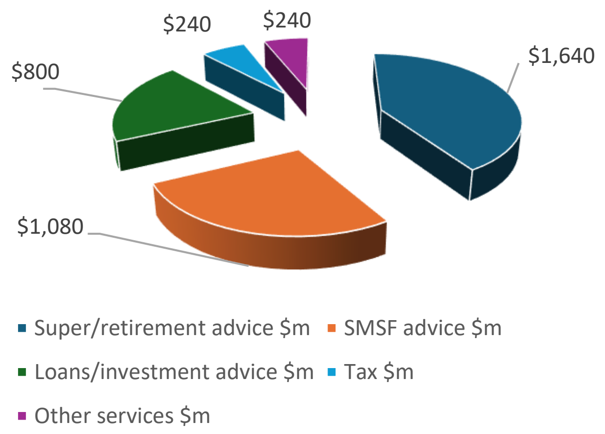
Supply - Industry size and structure.

Various industry sources estimate the financial advice industry to have been a ~$6bn revenue industry before the Royal Commission (February 2019). Industry revenue contracted heavily post-the Royal Commission) to reach a nadir of just over ~$4bn in annualised revenue and has now started to regrow. We reasonably expect that industry growth should be at least nominal GDP over time 3%-4% p.a. plus growth. (The industry has in the past grown at this sort rates of CAGR (leaving aside market shocks).

Industry estimates suggest the business has a revenue pool of about $4bn +, which is growing again.

There was also a contraction of advisers after the Royal Commission due to more stringent education requirements. More of that later. Figure 11 shows the various revenue pools within the industry after the contraction. It is still a vast and very fragmented industry.

Figure 11: Financial planning and investment advice Industry size by category / p.a $m - 2023



Source: DVR/CUP independent expert report – LEA / other industry sources.

More robust education and work experience and the Royal Commission have led to a clean-out of advisers from the industry

Total advisers in the industry collapsed after the Royal Commission, but the requirement for greater education levels for advisers in the industry was far more critical. Structured paid for Financial Advice is usually given in three business formats: -

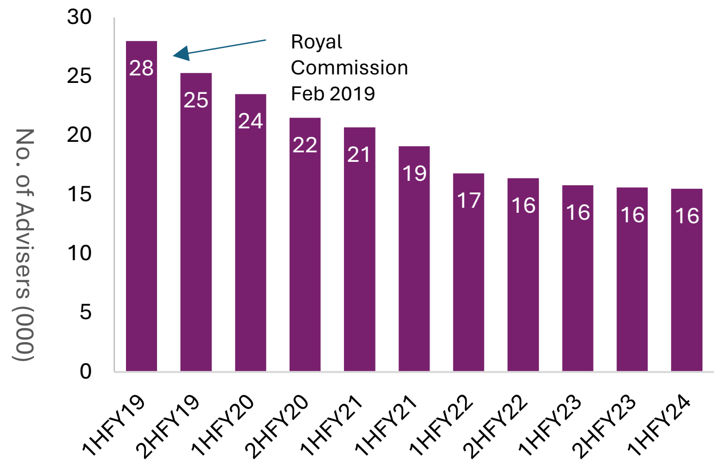
1. Employee advisers employed by the financial adviser firm. This can be either salaried and commissioned base (or a combination thereof).
2. Individually, they are self-employed advisers and authorised representatives operating in an authorisation agreement with an AFSL holder.
3. Self-licensed financial advisers

Educational reforms introduced in 2017 prompted industry's contraction of licensed advisers. FASEA was established in 2017 and introduced tougher educational requirements for advisers, including completing the FASEA exam on or before 1 January 2026 and holding a bachelor's or greater qualification in financial planning on or before 1 January 2026. These reforms aligned financial planning requirements to many other professional service businesses. Many advisers (particularly those who only provided a limited scope of services) left the industry due to lacking ability, expense, time, and inclination to achieve these educational standards.

The industry is fragmented, which is leading to inefficiencies. Sharing knowledge, systems, and processes is a big value-add.

Very few growth industries workforce contract by 40% in 5 years – financial advice just did!

Figure 12: Authorised financial advisers



Source: Hub 24 – 1H24 result presentation/ASIC/Treasury

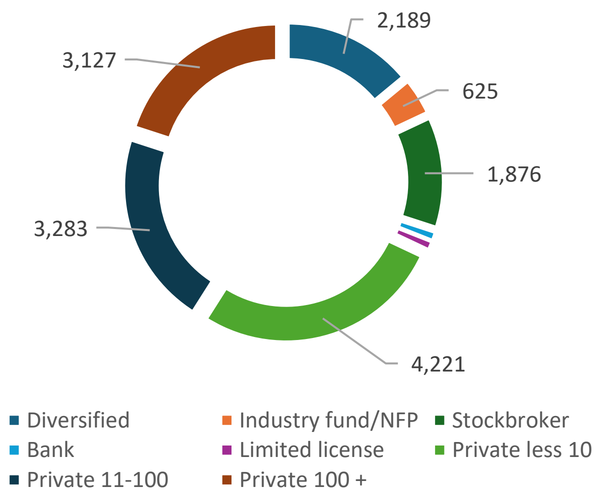
About 15 advisers on average behind each AFSL

FASEA and the educational requirements are now managed by the Treasury, with some involvement by ASIC. Some relief has been granted to existing experienced financial planners to relax the requirement to obtain a degree. An alternative pathway is available to experienced financial advisers with experience and a strong compliance track record. The experience path includes ten years of relevant practice and a clean disciplinary record. All advisers need to pass the financial adviser exam to practice.

Some grandfathering of the need to acquire a degree -has provided some relief.

New planners need a year of work experience, a relevant degree, and pass the exam… material barrier to entry.

Figure 13: Financial planning industry – adviser per category



Source: recent - HUB 24 – analyst and investor pack, source ARdata Q4 - 2023

Industry figures suggest that 1,200 AFSL holders are behind the 18,635 advisers, which suggests about 15 advisers per AFSL.

New advisers also need a year of relevant professional work, an appropriate degree, and the ability to pass the financial adviser exam before providing financial advice. The financial exam regime was introduced in 2019 and had a preliminary completion/implementation date of 2022. That, combined with the Royal Commission, drove the exodus from the industry. The entire regime implementation has been elongated to 2026.

As of June 2023, ASIC reports that 18,890 advisers have passed the adviser exam, and 15,850 are registered. Some have passed the exam and plan to use the skills at a later date. There is also some growth as new advisers seek to become qualified financial advisers.

Higher barriers to entry – make the established reputable players even more valuable

These reforms have materially lifted the barriers to entry for new advisers and new financial planning businesses. It will make the industry more professional and lift the standards of financial advice. We have previously witnessed under/unqualified salespeople seeking to enter the financial advice industry and run the far higher risk of offering sub-standard advice. **The reform also makes the existing firms and the newly regulated and upskilled advisers more valuable**. Improved financial advice and regulation should also help restore the public's confidence in financial advice after the adverse publicity by the Royal Commission and other scandals and scams.

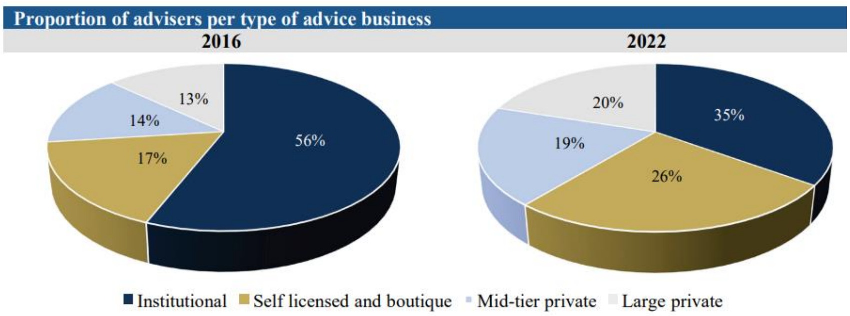
The full regime takes force on 1 January 2026. All advisers must be registered with ASIC as of February 2024. This will also clean out dubious operators. The ASIC registration also provides a helpful public register of advisers, which would be a useful recruitment tool for well-capitalised and disciplined operatives such as CAF (and who are not distracted by past problems).

We see a reduced big corporate presence within the industry

The other big change has been a reduction in the industry's institutional presence and the resilience and growth (as a proportion) of the industry from the smaller players. The sale of MLC and ANZ businesses and the exit of CBA from the wealth industry, in part, explain these structural changes. Westpac also has drastically reduced its presence in financial advice (winding down the BT investment, Sale of Pendal many years ago).

This change rather suits Fiducian, which can help/assist and provide services in the financial advice market. Fiducian can expand and grow their market presence in an Australian market of reduced competition. The combination of a consistent client base, rising demand, and increased regulation is driving the smaller financial advice providers to outsource services, compliance, systems, processes, and training to players such as Centrepoint Alliance (CAF). Fiducian can win direct advice share.

Figure 14: Structural change of the advice industry



Source: CUP/DVR merger document / LEA and other industry sources.

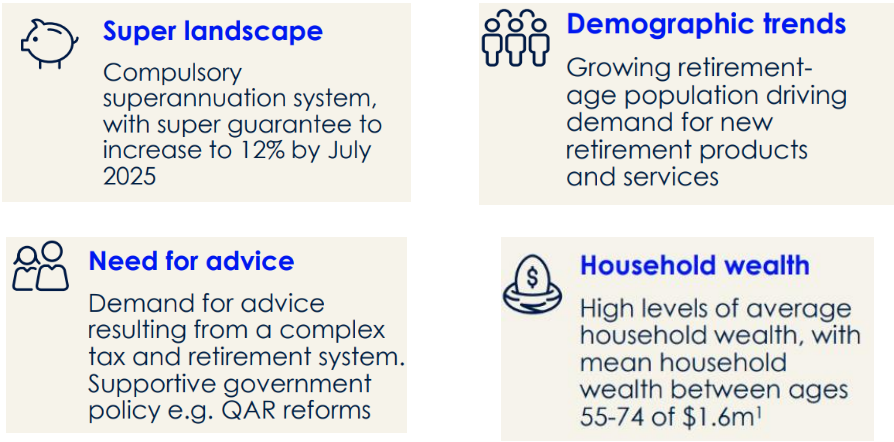
Demand for financial advice

We believe that the market is under-serviced.

25% of Australians intend to get financial advice in the next 12 months (2019)

Macro trends that are set to drive financial advice demand are well summarised in the figure 15 below.

Figure 15: Macro advice driver trends



Source: AMP 1H result slide deck.

When considering where people get financial advice from, one can only say "YIKES"

This is an ample opportunity for the industry.

According to industry sources, demand for financial advice is strong, with 29% of unadvised Australians seeking help from an adviser. About 16% of Australians use a planner for advice, and 25% will engage a financial planner in the next two years.

Figure 16: Demand for Financial Advice

27%	of Australians had received financial advice **in the past**
12%	of Australians had received financial advice **in the last 12 months**
41%	of Australians intended to get financial advice **in the future**
25%	of Australians intended to get financial advice **in the next 12 months**
20%	of Australians had considered getting financial advice **in the last 12 months,** but had not gone ahead

Source: ASIC report 627 – demand for financial advice -online survey 2019

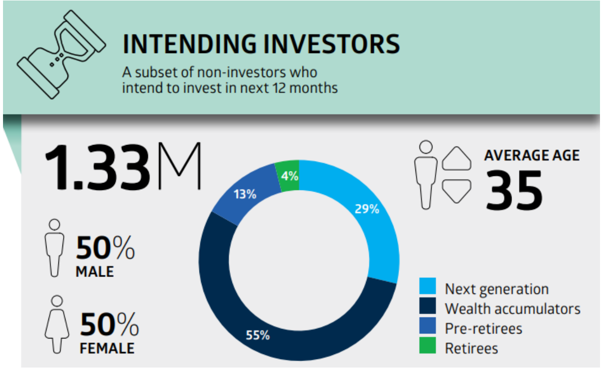
ASIC survey and ASIC commentary further outlined the opportunity for qualified, experienced financial advisers to gather business when one considers WHERE people get financial advice from. The ASIC survey found that advice and guidance came from family and friends (31%), the Internet (23%), Financial advisers (16%), and accountants (14%). There was a long tail of other somewhat rubbery sources. For younger people, YouTube, similar videos, and social media also play a prominent role. We did note clairvoyants and astrologists surprisingly did not get a mention (or perhaps they are online these days)!!!

We have reduced significant corporate presence within the industry.

In 2021, Investment Trends estimated that 61 per cent of consumers had 'unmet' advice needs, with only 16 per cent having seen a financial adviser in the last 12 months.

In 2023, the ASX undertook a massive survey of over 5,000 Australians to create a highly comprehensive Australian investor study. The study noted that of the 20 million Adult Australians, about 8 million have never invested (of which many cited a lack of money as the main reason). A further 1.8 million are lapsed investors. COVID, better technology, price, and ease of use of ETFs have helped expand investment in Australia. Of this non-investor base, many intend to invest.

Figure 17: Non-investors that intend to invest in the next 12 months.



Source: ASX- Australian investor study 2023.

The study also looked at financial advice and revealed that demand for professional financial advice looks robust.

The demand looks promising. The industry's challenge is to convert this demand into professional advice and not leave investors to use informal channels.

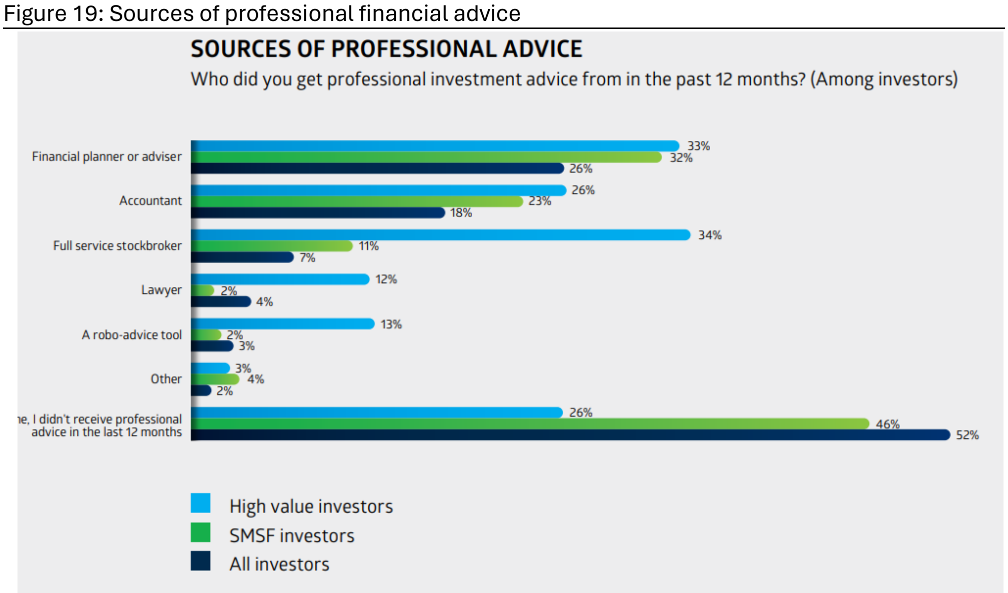
Figure 18: View of financial advice

Source: ASX- Australian investor study 2023.

The study further breaks down sources of professional advice and those that did not receive any. Older investors with more significant balances tended to seek financial advice (perhaps that is why they have more significant balances!). As the population ages and balances in super rise (assuming markets are reasonable), the propensity to seek financial advice per capita should continue to be strong.

An aging population with more significant balances should continue to drive secular growth for the sector.

Figure 19: Sources of professional financial advice



Source: ASX- Australian investor study 2023

Those looking for formal advice typically have higher incomes and higher education levels, are closer to retirement, and are interested in economic trends. Complex families, more significant inherited balances, compulsory super, and higher levels of education (young vs. older) are also drivers of the need for financial advice. Extremely complex social security rules (qualifying for the position) and the tax system's complexity are also helpful to the demand for accounting and financial advice. The average inheritance is projected to be c $320k.

Australia's superannuation system is one of the largest pension systems globally. It is forecast to grow from over $3.7 trillion today to almost $9 trillion by 2040. The aggregate contribution to 30 June 2023 (for the year) was $184bn.

Figure 20: APRA statistics fund size and structure from ASFA

Type of fund	Total assets ($billion)	No. of funds	No. of accts (June 2023)
Corporate	47	8	0.2 million
Industry	1,272	22	13.4 million
Public sector	698	29	3.0 million
Retail	713	66	6.3 million
Funds with less than 7 members	915	615,940	1.1 million
Balance of statutory funds	50		
Total	**3,696**		**24.2 million**

Source: APRA Statistics – December quarter 2023

Source: APRA Statistics

Balances grow as the population ages. To rectify the balance variation, there is also a pressing need to provide more excellent financial advice to women.

ASFA/ATO statistics show all Australian males (15 years and above) have a mean balance of $189k, and all women (15 years and above) have a mean balance of $150k.

Figure 21: An aging population

Mean and median balance (June 2021)

Characteristics	Age	Mean $	Median $
Males	15+	189,892	68,645
Females	15+	150,922	53,731
Males	30-34	56,344	41,849
Females	30-34	46,289	35,716
Males	60-64	402,838	211,996
Females	60-64	318,203	158,806

Source: ATO Covers those with balance greater than zero.
Around 17 million Australians currently have a super account.

Source: APRA statistics – as prepared by ASFA

In summary, there is compelling, high-quality, independent evidence of the industry's favourable demand growth. Better players that deploy with strong compliance, reputation technology, efficient and lower cost, and can capture ETF trends using social media (videos) are better placed to capture some of this growth.

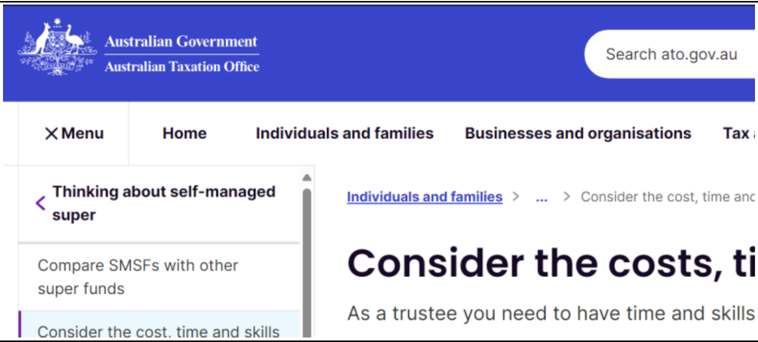
Accounting industry

The secondary industry segment for Fiducian to supply niche services to – apart from financial advice and planning … is the massive accounting industry.

Other competitors will cater to both financial planning and accounting and have a higher exposure to the accounting industry than Fiducian – such as Count. Fiducian can provide a referral flow back into accountants (where appropriate).

We also believe that Fiducian offers a service that does everything for the client and reduces the cost, compliance, and burden of running an SMSF…'

Figure 22: costs of running an SMSF



Source: ATO website – snap

Post the FASEA reforms; we believe accountants have reduced their AFSL licenses and adviser base disproportionately to the advice industry and will increasingly buy in services and/or refer advice businesses to financial advisers they know and trust (and vice versa) rather than offering in-house financial advice.

Industry statistics suggest 34k accountancy and tax agents in Australia, about 13.5m Australians lodge tax returns, 2.6m actively trading businesses, and 600k SMSFs.

Accounting is estimated to be a $28bn industry, with about 20- 30% of revenue linked to a range of advisory services (such as SMSF audits). The industry is stable and characterised by lower growth rates and modest volatility. Ongoing skill shortages are also helpful because accountants are less likely to provide financial advice and look for outsourced solutions or /expert-qualified financial planners rather than keeping the business in-house.

Fiducians' industry position

We believe it is a good time for investors to revisit the quality-listed players like Fiducian.

We are looking for those that survived structurally intact and have strong positions in an industry with continued demand and access to capital – FID is an excellent example of this criterion.

Increased overall complexity, the aging population, recovering markets, increased risk of scamming that requires sound financial advice, the interplay of social security and taxation systems, increased funds flowing into the super system, larger balance size, and intergenerational transfer all STRONGLY underpin the continued need for quality financial advice that FID provides.

The financial planning, advice, investment management, and funds management industry has had a tough few years. A Royal Commission, major changes in legislation, a resurgent industry superannuation that is willing to advertise very heavily, and major industry consolidation, such as banks exiting financial planning, have been strong headwinds for the industry.

Reduced competition in some parts of the financial advice industry and reputation distraction amongst more prominent players create target-rich business development and recruitment/acquisition options for Fiducian.

Demand has likely not ever gone away (but has been suppressed) … and likely has materially increased. This needs a bespoke solution not readily provided by industry super funds and cookie-cutter products and services for many Australians.

The wealth management landscape in Australia is changing. Regulatory changes, including the ban on conflicted remuneration and the introduction of client best interest duties, encourage more excellent platform choices. There has been a move from vertically integrated wealth models to independent ones, growing the share of advisers who have a choice over the platform.

The total SMSF market is estimated to be $880bn, and various industry sources suggest a 4% or 5% CAGR growth rate. Given the continued inflow of contribution, increased wages, increased ATO compliance activity (stopping employers from deciding not to pay super), and contribution as % of salary increases – we believe the growth rate (fewer market movements) is at least 5%, and probably more like 10% CAGR.

There are estimated to be over 600k SMSF + with 1.1m members and over $880bn in assets.

Ongoing demographic shifts, such as the aging of the population, are driving intergenerational wealth transfer and seeing Australians retire with more significant superannuation balances as the superannuation system, which was only established in the early 1980s, matures. Higher balances axiomatically increase the need for financial advice to protect, manage, and administer these balances.

These trends show that the wealth industry faces opportunities such as significant unmet advice needs.

The high cost of advice, staff shortages, changing business models, inefficient and manual processes, a greater focus on clients' best interests, higher regulatory burdens, and increased cyber security risks are all contributing factors.

Fiducian has structural advantages over others in the industry.

Scale	By sizable and internally controlled funds management and related activities, Fiducian can use its increasing scale to access volume rebates, buy in bulk, and access high-quality service providers in a repeatable and reliable way. In many of its activities, Fiducian can be a price maker, not a price taker.
Internally developed systems	All of the major systems that Fiducian relies on, such as Platform Administration and planning, have been internally developed. This enables new features, fixes, and updates to be quickly and flexibly implemented rather than relying on external providers. Fiducian has 27 years of sunk cost advantage (and 20 dedicated IT staff) and is not defending a high-cost platform or enriching a third-party fintech.
One system	Fiducian has linked planning, administration, and reporting systems into one system. Most Financial planning software is coded differently to platform systems (external providers/different needs /goals). This, for example, prevents CRM from being easily linked to platform software.
Cost	By developing systems internally – costs can be controlled, and there is “no pay” away to middlemen. This enables Fiducian to provide low-cost products with a margin for the financial advisers. Developing systems and platforms internally also retains a degree of simplicity. The cost of producing this system externally would not be prohibitive for many industry entrants.
Performance track record	Fiducian manages the manager selection with a roster of 45 fund managers, blending correctly for client needs, with a bias towards fund managers' longevity /reliability– creates a track record that even the best-in-class asset consultants will struggle to beat. By providing fund managers with certainty, costs can be kept lower, scale advantages delivered, performance consistent (and has been) and reliable, and switching costs for clients kept low.
Access to Capital	Listed and profitable, with cash on the balance sheet, it provides confidence in all the business does. We also suggest that having one's own business helps generate additional financial advice business, and the converse is also true. If the parent company can’t manage its finances, what advice are you likely to get?
Controls the client	Fiducian and its advisers’ control, direct, and manage the end investor. They decide the circumstances upon which business is done – not external operatives.

Product suite	Fiducian has a strong group of financial products with good performance. We think that for some aspects of fee financial advice – Fiducian may even have pricing power and look to recover increased costs.
Corporate structure	Australian-owned and operated without offshore taskmaster
Reputation	Strong against others who have had issues
Community	The business has consistently worked to build community ties. The workforce and planner staff are diverse and multicultural, which is an increasing strength of the company.
Technology	Essentially, internally developed and operated systems confer a significant cost and flexibility advantage to Fiducian.

Porter Five forces - analysis

The threat of new entrants

We believe the threat of new entrants is arguably lower than ever in the modern financial market.

We believe that increasing regulatory requirements, including AFSL regulation, education requirements, the cost of switching for investors, buying scale, scale over service delivery, and incumbents leaving the industry, are all reducing the threat of new entrants in a material way. There will always be small bands and even individuals seeking to set up and then access the lowest-cost service levels, but we believe that this is harder than ever.

One area to watch is the development of AI to provide low-cost automated advice. AI can reduce labour-intensive processes, but we suggest AI is still far from delivering quality financial advice that is mistake-free, fits the client's need, is prudent, has its regulations, and is compliant.

Determinants of Buyer Power

Generally speaking, in the market in which FID operates – it either works for or is franchised by Fiducian. This degree of control prevents advisers from quickly leaving with the investor client base. Investors generally use various in-house Fiducian products and services, and the switching costs will be high. This differs from other external financial planners who buy services or pay to use an AFSL but can choose to leave.

There are also high switching costs with new paperwork to open accounts, which is enormous and time-consuming. Buyers can use multiple providers, but there is a cost for additional paperwork. It is far easier to use a financial planner, and the efficiency is apparent.

Clients can attempt to run their financial affairs via their SMSF, but it is getting harder.

Supplier power

Fund management is more competitive than ever, and with many providers, this is less of a problem. Skilled and qualified labour is a crucial input. Personal relationships between advisers and clients are an area of supplier power that has some strength.

Entrenched providers such as Asset Consultants and part of the technology industry (HUB/Iress/Bloomberg) have the power to rent seek…There are also many platforms and technology providers that do provide alternatives. The cost of switching and training new advisers creates a degree of reluctance to replace incumbent software providers and clients may need to be on board and agree/understand any change. Switching costs can be high and clients may move advisers (worst possible outcome). Clients are also reluctant to change, and there can be tax and other financial consequences.

Switching costs for clients can also be punitive—moving accounts to other advisers is time-consuming and bureaucratic. Buyers can try to set up their funds and manage themselves, but that is not the typical financial adviser client, and clients are already self-selected. **Rivalry among existing firms**

Materially lower as big banks depart, financial firms spin out financial advice businesses and industry acquisitions (M &A) are consummated.

There is some rivalry in attracting high-quality, prominent revenue-writing financial planners. Planners with more than $1m in net revenue are well sought after.

Threat of substitutes

AI is an emerging substitute technology. Complex and overlapping regulation, aging investors' willingness to use it, advisers' desire to embrace it (and perhaps commoditise their businesses), and the cost of creating and deploying it – all suggest that AI’s short to medium-term impact is limited. It could also help reduce some of the more laborious aspects (complying with a statement of advice, etc.). AI and automated style advice appears to be some time away. Regulatory requirements, manual ID and account opening, AFSL requirements, anti-money laundering procedures, insurance coverage, use of asset consultants, and a personal face-to-face touch are complex to copy /replicate via AI.

AI can help with highly repetitive /laborious tasks within the industry (that don’t have regulatory consequences, which may improve productivity). There have been past attempts at automated advice with very mixed (no) success.

In the very long term, it is an emerging threat.

Industry players

Other listed financial advice players include: -

AMP (AMP:ASX, not covered, market cap $2.98bn). AMP has approximately 871 authorised representatives within its licensee group. Despite various problems over the years, it remains the most significant player in Australia. A historically strong brand, the ability to cross-sell (now very profitable) banking, insurance and a large and diverse client base and adviser base should be, substantial advantage(s), compared to others.

Continued management changes, a backlog of older clients, some products in the runoff, and various other problems have kept AMP inwardly focused, losing advisers in size over time. AMP plans to cut a further $120m from the cost base by FY25. We strongly believe that it is tough to cut costs and grow simultaneously – in any business …. We note that in the most recent report, AMP lost an NPAT of $47m from advice on a total NPAT of $196m. A series of impairment costs were taken below the line. The AMP Bank, master trust, and platforms were bright spots.

Insignia (IFL:ASX, not covered, mkt cap $1,596m). Originally the Independent Order of Odd Fellows / Australia (IOOF*) (a degree of normative determinist may have been at play - editor comment)* – now renamed Insignia has also had a series of internal distractions, management change, and regulatory changes/interest. Insignia is the second largest player in terms of Authorised representatives with ~780.

Recent Insignia releases suggest that about 211 advisers will form professional services /advice businesses for Insignia, and 533 advisers across 274 practices will be spun out to become Rhombus (advisers may be offered equity, which will help retain them). Godfrey Pembroke is set to be quoted as "returned to advisers."

Figure 23: Insignia's spin-out schedule

Source: Insignia 1H24 results.

Newer platforms with slick tech and lower prices, such as HUB and Netwealth, have taken share /profits from IFL's older legacy platforms (some bought/some internationally focused). Historically, Insignia has grown by acquiring MLC and parts of ANZ's business in recent times. We believe that recent senior management changes and this material acquisition will keep it inwardly focused – for now. One such example is the merger of the MLC wrap platform with $38bn in FUA and 96,000 clients to be combined with the in-house platform (Evolve/Expand) with $45bn in FUA and 240,000 customers.

Insignia paid $1.4bn for MLC and expected $150m in pay-tax synergies—pre- synergies the business cost 16.2X UNPAT. The combined group had 1,884 advisers and 2.2m clients. At a headline level, Insignia reported a loss in 1H24. Insignia is a massive player in customer accounts and Funds under management. Insignia currently has 1.5m accounts and $215bn of FUA.

The advice service business is set to be renamed Rhombus Advisory as a separate business with perhaps external shareholders (IFL would retain a share). The advice business reduced its losses but still lost in the most recent 1H24 results.

Insignia has also had substantial product and advice remediation expenses in recent times, which has kept the business focused on resolving these issues.

In the 1H24 results presentation – Insignia reported that the advice remediation provision was $52m and was falling but that during 3Q 24, further payments were likely. The product remediation provisions were $80.7m, and additional cash payments are due in 3Q 24. It would appear that these provisions are falling. However, while still dealing with these legacy issues, it is hard (in our view) for Insignia to be entirely focussed externally (such as being able to market/recruit/be in the media), et al.

Big banks have largely provided financial advice in the wake of the Royal Commission. We believe that in time, they may regret the decision and seek to re-enter the industry, attracted by the higher-value savings within the super system and the realization that they can't participate in the value chain and run the risk of being commoditized….

Fintech such as Raiz (RZI:ASX, not covered, mkt cap $37m) offers easy-to-use, low-cost functionality, often to young people without much wealth. These platforms usually only provide general advice (or even less). The ease of use and large customer base make these business styles enjoyable to others in time.

Other unlisted players include Stake, Spaceship, and other unlisted fintechs.

Prime Financial Group (PFG:ASX, not covered, mkt cap $48m) offers integrated wealth management, corporate and capital advisory, accounting and business/accountant advisory, SMSF services, and ESG advisory to business owners, entrepreneurs, and high-growth individuals. PFG recently acquired Altor Funds Management and is interested in further accretive M&A. PFG provides financial advice to salaried employees.

As of 31st Dec 2023, Prime Financial had approximately $1bn in FUM maintained by a workforce of over 170 members across eight locations in Australia, Asia, Europe, and North America. PFG reported solid revenue growth across its major divisions and underlying EBITDA of + $3.764m.

WT Financial (WTL:ASX, not covered, mkt cap $24m) provides wealth management, retirement planning, and personal risk insurance advice services through a network of approximately 554 (authorised reps) operating as Authorised Representatives under its Wealth Today, Sentry, and Synchron subsidiaries.

WT Financial has a range of financial advice services available directly to wholesale and retail clients through its Spring Financial Group brand. It also delivers in-person and online seminars and professional development programs through its Wealth Adviser business.

Sequoia Financial Group (SEQ:ASX, not covered, mkt cap $69m) -Sequoia Financial Services operates through several divisions. The company's Licensee Services division provides licensee services to 374 (1 May 2024)[3] advisers operating as authorised representatives under its InterPrac and Sequoia Wealth Management businesses. Sequoia has been growing its number of Authorized reps recently. It has a solid balance sheet, having recently sold Morrison Securities.

Sequoia generates a reasonable proportion of its earnings from its Licensee Services division, which provides licensee services to advisers operating under its InterPrac and Sequoia Wealth Management businesses. Sequoia also offers various other services, including corporate finance, general insurance broking, SMSF administration, legal document establishment, and investment management services, and it holds several other direct investments. It is a direct competitor to CAF.

Fortnum (a private company) has approximately 381 advisers. It was established in 2010 by Mr Ray Miles and some other financial advisers. This business offers authorised representative services such as advice, investment research, practice management, and technology. Mr Neil Younger is the CEO/MD with extensive senior experience running similar businesses. The business wants to be amongst another thing the planners' planner. Fortnum also acknowledges the need for scale and that the mid-market will continue consolidating.

C**ount (CUP:ASX, not covered, mkt cap $92m) has recently merged with Diverger (DVR:ASX (previously), not covered)** to create a proforma group of approximately 730 authorised representatives. This makes the combined business 3rd behind AMP and Insignia and ahead of Wealthtoday and Centrepoint Alliance (CAF, not rated, mkt cap).

Count is an Australian-based provider of integrated professional accounting and wealth services with 193 accounting, wealth, and services member firms across Australia, representing 379 financial advisers and 563 accountants with $16.8 billion in funds under advice (FUA) at the time of the acquisition of Diverger.

Count invests in accounting, wealth, and aligned service firms around Australia primarily through equity partnerships rather than 100% ownership. Services provided to equity partner firms include strategic and operational support, access to capital for succession and growth, benefits from national pricing agreements, client referrals, and access to a professional community. Count owns two AFSL licenses, which authorise financial planning member firms to deliver financial services effectively and efficiently. Count also has equity interests in firms providing aligned services, such as SMSF.

Diverger was a group of wealth and accounting businesses that provides integrated accounting and wealth management services. This set of businesses generated revenue across five core services, including license services, investment management services, memberships, training, and IT and cyber services.

Diverger operates (ed) across three business segments:

1. The Wealth Solutions Segment provides AFSL licensee services to some 391 licensed advisers (financial planners and accountants). It provides investment management services to over $2.7 billion of funds under management (FUM).
2. Accounting Solutions Segment provides training and support services to over 3,000 accounting practices.
3. Technology Solutions.

Diverger was headquartered in Sydney, New South Wales (NSW), and employed approximately 110 staff before the merger.

[3] SEQ also notes 24 are undertaking a professional year and will add to numbers. SEQ notes that about 10% of the advisers were not on the ASIC register (general).

Other players in the top 10 include Lifespan and NTAA.

Lifespan is privately owned by a father and son (The Ardino family) who are both involved in the management and running of the business. It delivers a comprehensive service set, including compliance, support, education, and business support. It has been in business since 1994 and has won a series of industry awards for its business. It has 282 authorised representatives.

NTAA—National Tax and Accountants Association—has approximately 245 authorised representatives. NTAA is a not-for-profit association dedicated to assisting accountants, tax agents, tax advisers, and businesses in resolving their tax issues. Formed in 1992, NTAA has over 10,000 member firms subscribing to it. The NTAA offers AFSL operatives business services/advice similar to others. It appears to have a more bespoke offer and perhaps cheaper than other providers.

Australian Wealth Advisers (WAG:ASX, not covered, mkt cap $24m) recently IPO'ed and is well-backed by experienced management and investors. WAG has been seeded with assets of the Armitage funds management business and some smaller advice businesses. We'd expect this business to be active in expanding into financial advice in the future.

Centrepoint Alliance (CAF:ASX, not covered, mkt cap $58m) is the 4th largest licensee (AFSL) group by advisers in Australia. CAF provides a range of financial services and advice support services (Licensing systems, compliance training, technical support). CAF also provides investment solutions to financials advisers, accountants and their clients.

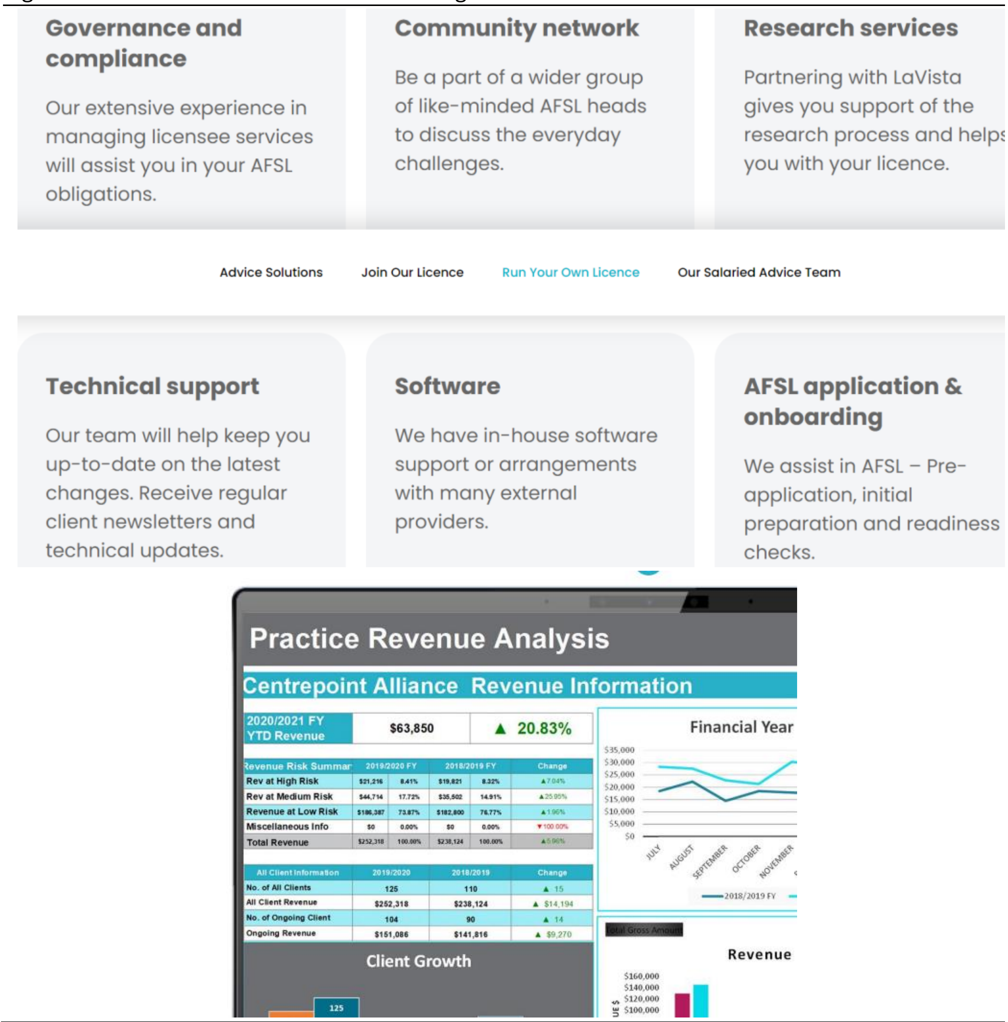
1. <u>Licensee and advice services</u>: CAF provides Australian Financial Service License (AFSL) services and financial adviser (AFSL) businesses. Services include : - <u>Join CAF's license</u>, which offers offerings such as Alliance Wealth, Matrix Planning Solutions, and Professional Investment Services. An alternative service is : - <u>Run your own license</u> - Brands, including Lavista licensing solutions and practice advisory services.

CAF now offers a credit license (Centrepoint Alliance Lending solution) – lending as a service.

CAF provides a suite of solutions under this licensing format, including governance, business management, advice services, and client growth services. Breaking this down, further services include technology (20 people in the expert Xplan team), PD and education and training, compliance, and regulatory updates. Registration maintenance (with ASIC), advice technology – 16 dedicated staff - (IRESS, Xeppo et al) and advice templates/models, investment research (enabled by asset consultants), management systems including Salesforce, client-facing material, dashboard, and practice management. These tools enable advisers to spend more time with clients and grow their businesses. These services can be provided/ operating under CAF's license (as an authorised representative).

CAF brings buying power, support, and scale to these software tools that otherwise might not be available to smaller independent palling businesses. Critical services such as paraplanning are provided in-house and not outsourced to 3rd parties.

Figure 24: CAF break down of service offerings



Source: CAF's website.

2. <u>Funds Management and Administration:</u> this business provides investor-directed portfolio and investment management services to financial advisers, accountants, and clients. In particular, financial advisers can offer this specialised service to their clients (if appropriate for the client's requirements). Specific services include investment management, such as best-of-breed model portfolio construction accessing world-class investment management via several platforms.

This division includes the IQ portfolios, CAF's suite of managed account solutions (SMA). IQ provides a series of Growth and income portfolios, whereas CAF provides investment management (via Ventura) and RE functions. This set of portfolios (SMAs) is being progressively rolled out via the WMAPs (CAF-developed systems), and the SMA is now being offered via Macquarie manager. We'd expect further platforms such as HUB24, Praemium, and BT Panorama to support iQ into the future.

CAF has partnered with FNZ to create and / rollout a new platform to compete with the incumbent providers. This nascent product can offer lower fees for the client, better flexibility, greater compliance, and a greater share of the value chain to CAF compared to using more traditional external fund management and external platform systems.

3. <u>Consulting services:</u> This is a smaller part of the overall CAF business that provides consulting services and technology consulting.

Other industry players

We also note that groups such as Crestone (Bought by LGT) and other ultra-high net worth-focused planning groups can have significant FUM, revenue, and market reach. LGT Crestone is advertising on TV at the moment. Family Offices are also active players but generally lack the marketing and brand power needed to reach scale within the industry.

Others in the advice industry include major retail stockbrokers such as Morgans and Ord Minnett, which also have sizeable financial advice and stockbroking businesses.

However, it is estimated that most financial advice firms are small, with about 78% of licenses operating with less than ten advisers. There is likely to be continued consolidation within the fragmented industry.

Peer valuation evidence

Fiducian is also not undertaking a material merger, remediating customers, undertaking a structural change, or unravelling a fund manager that the fund manager fed. Therefore, FID is a cleaner play and higher quality play than others. **Fiducian's accounting quality is extremely high (full tax rate, no normalisation, does <u>not</u> capitalise IT costs, pays a regular dividend, net cash balance sheet, cash flow matches EBITDA, listed for a long time), and this also warrants a valuation premium.**

Fiducian is unique in that it is both a financial adviser, manager of fund managers and platform provider at the same time and this capability has been built over decades. This capability benefits itself and increasingly being offered to third parties.

Figure 25: Financial advice - Peer valuation table

Stock	Code	Price	Shares	Mkt Cap	Net Debt	EV	EV/EBITDA(x)				P/E (X)			
Finacial Advice		**LC**	**m**	**$m**	**LC m**	**$m**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Centrepoint Alliance	caf-asx	$ 0.29	198.9	58	-15	47								
Count Limited	cup-asx	$ 0.55	168.8	93	7	100	6.1	5.2	3.2	3.0	18.2	12.5	6.4	5.7
Insignia Financial Ltd	ifl-ASX	$ 2.35	670.7	1,576	432	2,008	5.8	5.8	5.5	5.3	8.1	7.9	7.4	7.3
Sequoia Financial Grc	seq-ASX	$ 0.53	131.5	69	-5	64	13.9							
Australian Wealth Ad	wag-AS:	$ 0.34	74.4	25	-5	20								
WT Financial Group L	wtl-ASX	$0.062	339.2	21	3	24	3.7							
Prime Financial Grou	pfg-ASX	$ 0.21	223.0	47	10	57	6.6				10.6			
EQT Holdings Ltd.	eqt-ASX	$31.26	26.7	834	-49	785	15.3	11.9	10.2	9.4	28.6	21.1	17.5	16.0
Average							**8.6**	**7.6**	**6.3**	**5.9**	**16.4**	**13.9**	**10.4**	**9.7**
Median							**6.3**	**5.8**	**5.5**	**5.3**	**14.4**	**12.5**	**7.4**	**7.3**
Fiducian Group Ltd	fid-ASX	$ 7.99	31	252	-15	236	10.8	9.5	8.3	7.3	20.5	17.5	14.6	12.6

Source: FactSet and Veritas – we do not cover these names except FID – peers prices at close 14/5/24

We have also examined listed, well-run financial planning businesses such as Kelly Partners and platform software providers.

We'd note that software providers have gained large amounts of FUA from legacy platforms (AMP/Insignia/Big banks—MLC), which has led to premium ratings for PPS/HUB and NWL.

Some of the fintech small and micro-cap businesses also lack consensus estimates but have substantial user bases and strong growth opportunities (in our view).

Figure 26: platform /fintech/ financial services (update this)

Stock	Code	Price	Shares	Mkt Cap	Net Debt	EV	EV/EBITDA(x)				P/E (X)			
Finacial Advice		**LC**	**m**	**$m**	**LC m**	**$m**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Plaforms/Financial services														
Netwealth Group Ltd	NWL-AS	$20.17	244.0	4,922	-130	4792	47.6	37.5	30.0	25.3	73.3	57.5	45.6	38.3
HUB24 Limited	HUB-AS	$41.23	81.2	3,349	-130	3219	31.4	27.3	21.4	18.0	56.9	49.9	37.6	30.9
Praemium Ltd	PPS-ASX	$ 0.47	485.6	226	-44	182	7.8	9.6	7.8	6.4	14.9	33.0	26.0	15.9
Kelly Partners Group	kpg-ASX	$ 6.62	45.0	298	67	365	13.9				55.1			
Raiz Invest Ltd.	RZI-ASX	$ 0.37	95.5	35	-13	23					-5.1			
SelfWealth Ltd.	swf-ASX	$0.140	234.3	33	-12	21	5.2							
InvestSMART Group L	INV-ASX	$0.140	142.7	20	-7	13								
Average							**21.2**	**24.8**	**19.7**	**16.6**	**39.0**	**46.8**	**36.4**	**28.4**
Median							**13.9**	**27.3**	**21.4**	**18.0**	**55.1**	**49.9**	**37.6**	**30.9**
Fiducian Group Ltd	fid-ASX	$ 7.99	31.5	252	-15	236	10.8	9.5	8.3	7.3	20.5	17.5	14.6	12.6

Source: FactSet and Veritas – we do not cover these names except FID. Peers Prices at close 14/5/224

Financial model and analysis

We have modelled Fiducian's sales growth by developing funds under management via the three significant divisions, Funds Management, Financial Planning, and Platform administration, and then applied a gradual decline in BP fees charged over time to forecast operating revenue for the business. Past guidance cross-checked with double-digit sales growth mentioned in the past and FUMMAS providing independent and measurable points of reference through time.

Growth in funds inflows has been consistent—market movements are more complex to capture. Still, due to asset allocation (60% is equities, perhaps less), fee for service, and franchise structure, the proper leverage to market mitigates this risk.

Figure 27: Sales and financial drivers

FID AU Equity	Jun 23 Final	1H24 Final	2H24 F'cast	Jun 24 F'cast	Jun 25 F'cast
Sales					
Funds Mgt	20	10	12	22	26
Financial Planning	28	13	15	28	30
Platform admin	15	8	8	16	17
Corp services	11	8	8	15	16
Elimination		0			
Sales (net)	73.3	39	42	81	89
			7.8%		10%
Drivers					
Total FUMAA	12,340	12,900	13,900	13,900	15,410
Net mvt	1,400	560	1000	1,560	1,510
Inflows	380				
Rev/FUM - bp	59.4	30.3	30.3	58.5	58.0

Source: Veritas analysis – yellow is a Veritas assumption

EBITDA in $m

We have modelled Fiducian's EBITDA by referencing the historical margins of the business. There has been operating leverage over time, and we maintain that some costs will (and do rise) over time, such as wages/market access and volume-based expenses; there is operating leverage by Fiducian owning its IP, using salaried advisers, seeking volume rebates from fund managers and efficient and careful cost management. Fiducian has also maintained wage rises and has not engaged in bouts of underinvestment to boost the bottom line in the short term (and risk staff loss as a result). Noting Fiducian does not capitalise on IT costs and expenses – this is a highly conservative treatment but controls the discipline as IT well.

Figure 28: EBITDA forecasts in $m

FID AU Equity	Jun 23 Final	1H24 Final	2H24 F'cast	Jun 24 F'cast	Jun 25 F'cast
EBITDA					
Funds Mgt	13.1	6.8	7.4	14.2	16.6
Financial Planning	3.7	1.6	1.8	3.4	3.6
Platform admin	12.6	6.7	6.9	13.6	14.8
Corp services	-7.9	-3.0	-3.8	-6.8	-7.0
Total EBITDA	**21.5**	**12.1**	**12.3**	**24.4**	**28.0**
Cost base (sales - EBITDA)	51.8	27.0	29.8	56.8	61.3
EBITDA Margin					
Funds Mgt	66.2%	65.4%	61.9%	63.5%	64%
Financial Planning	13.4%	11.9%	12.1%	12.0%	12%
Platform admin	85.1%	87.0%	85.0%	86.0%	86%
Corp services					
` EBITDA Margin	29.3%	30.9%	29.2%	30.1%	31.3%

Source: Veritas analysis – noting yellow - is a Veritas assumption

D and A

Past acquisitions are feeding into a rise in amortisation costs. The business also has some rights to use assets that are being depreciated quickly, and deprecation may fall as an expense in time. The right-of-use balance is $3.5m, compared to the depreciation of $1.6m in FY23. We have not forecast any significant change, but we note that some upside might develop here.

Tax

Fiducian pays an average corporate tax rate and has no useable losses. This strong status might be relevant if future businesses are acquired. Tax losses in other (acquired) businesses may be valuable to Fiducian.

Balance sheet

Positive features include a solid net cash balance sheet, ongoing profitability, and no capitalising R&D. This business does not consume much capital. The accounting quality of the business is very high.

Dividends

Fiducian is in an elite group of ASX businesses that have grown dividends yearly for the last ten years. Only about ten such companies are in this category, and it is an elite group. We expect the payout to remain at 60-70% of profits.

Franking credits

As of the 20th of June 2023 – Fiducian had $26.3m in franking credits and consistently (via tax earnings being less than dividends) adds to the franking credit balance. The franking balance will have fallen circa $5.5m after the 1H23 dividend was paid.

Valuation

We derive a blended valuation of $8.56 per share for Fiducian. We use a combination of an EV/EBITDA valuation and a DCF. The EBITDA valuation removes the various competitors' tax status and varying balance sheet structures. It also eliminates the distortion caused by R&D and IT capitalisation, noting that Fiducian has a conservative treatment compared to many others.

Figure 29: blended valuation – Fiducian

Blended Valuation		Value $	Weight
EV/EDITDA X	$	8.53	50.00%
DCF	$	8.59	50.00%
Blended	**$**	**8.56**	
Current Price	$	7.99	
Difference		7.1%	
FY24 div yield		4.6%	
TSR		11.7%	

Source: Veritas analysis

We have separately modelled the Fiducian businesses on sum of the part valuation basis. Fiducian combines traditional financial advisers but has its own internally developed and externally facing platform administration business and we believe this is best separately valued and then derive a sum of the part valuation. We have referenced comparable multiples for the components and split up the valuation of the various parts accordingly.

We have applied a discount to the platform business compared to the highly valued pure plays.

Traditionally, past corporate action within the sector has relied on an EV/EBITA (D) valuation approach, noting that D is normally a very small number.

Figure 30: EV/EBITDA – SOP for Fiducian

Segment / $m	FY24E EBITDA	Multiple (x)	Value $m
Funds Management	14.2	6.5	92.6
Financial Planning	3.4	6.0	20.2
Platform	13.6	12.5	170.3
Corporate	-6.8	5.0	-34.0
EBITDA	24.4		
Enterprise Value range			249
Less FY24F net debt/cash			20
Equity Value			269
No. Shares (diluted)			31.5
Value per $/share			$ 8.53

Source: Veritas analysis

We are valuing the business via a DCF as well.

Figure 31: DCF valuation

Free Cash Flow Valuation			Cost of Equity	
Valuation year:		FY1	Risk Free Rate	6.0%
PV of FCF		70.7	Beta	1.00
PV of Terminal Value		179.1	ERP	5.0%
Add: Other assets not in cash flow		-	Cost of Equity	11.0%
Enterprise Value		249.9		
Less: Net debt		24.1	Cost of Debt	6.0%
Less: Preference capital		-	Debt Weight	0%
Less: Minority Interest		-	Equity Weight	100%
Equity Value		274.0		
Issued shares m		31.5		
Yr end adjustment		0.987		
Value per share	$	8.59		
Assumptions				
LT Growth		4.0%		
WACC		11.0%		
RONIC after Yr 5		15.0%		

Source: Veritas analysis

Risks

Risks – (include but are not limited to):- adverse regulatory change, orderly management succession, loss of advisers, cost inflation, client claims, financial markets, legal problems, new financial products (AI/cryptocurrency/ETFs), cyber security, maladministration by staff/advisers, access to acquisitions, adverse behaviour, increased competition, perceived or absolute competing with clients/fund managers, corporate action risk in administration (more of a risk for the provider than FID), the poor performance of investments, internal asset consultant risk, Technology update risks (Fiducian managed this in-house), adverse and reliability of Fiducian platforms and an inability to access/ (cost of) insurance.

Summary

- We rate Fiducian as a buy and initiate coverage with an $8.56 per share target price.
- Fiducian is firmly positioned to continue to grow. Strong FUMAA, increasing scale, a predicable cost profile and past acquisitions are collectively feeding into the P &L and are all attractive features.
- Fiducian has its own financial affairs in a strong and orderly state. We believe this provides confidence that its systems, people and processes are first rate and helps to win further advice business.
- The industry has undergone a reduction in supply of advisers and increasing demand creates the ideal headwind(s) for Fiducian's business. Structural change increases barriers to entry (qualifications, work experience, exam) and increases the value of the existing Fiducian's adviser and FUMAA base.
- The accounting quality and financial strength of Fiducian warrants a premium valuation. Factors such as NOT capitalising R&D costs, consistent profile of profit, paying a regular dividend, EBITDA converting to profit are positive features.
- The development of an internally developed platform over a long time offers a strong competitive platform and financial product suite and these features can (and are) now be used to disrupt the external platform market.
- The market (in our view) does not value the inherent value of the self-developed software, funds management selection track record and platform (s) as these features are part of a wider advice group profile– we believe this feature mis-prices the platform aspect of the businesses.
- Fiducian has a balance sheet strength to acquire further complementary businesses, books and people), acquire /recruit new financial planners, and prevent the loss of scarce staff with its strong profit stream and franchisee optionality.
- We believe it is time for investors to revisit the quality listed players, looking for those that survived structurally intact and have strong positions in an industry with continued demand and access to capital. FID is a good example.

Appendix One – Corporate History

FIDUCIAN Group Limited	
Year	**Milestone**
1996	Fiducian Portfolio Services (FPS) founded by Indy Singh as independent financial services and funds management company
1997	Fiducian launches master funds, client admin and financial planning services for adviser groups
1998	Two more services launched: superannuation and investment
1999	Fiducian Strategic Asset allocation software launched for planners
2000	Fiducian lists on the ASX
2001	Internally developed financial planning software Fiducian Online Resource Centre (FORCe) launched
2002	Fiducian Financial Services (FFS) established and new national headquarters opened at York Street, Sydney NSW
2003	FORCe goes online as does Fiducian Online for investors. Fiducian buys Bodinnars Personal Financial Planners
2004	FORCe FP financial planning software released for advisers
2005	Fiducian buys Money & Advice, a Tasmanian financial planning company
2006	Bodinnars Personal Financial Planner and Money & Advice commence trading as Fiducian Financial Services
2007	Funds Under Management top $1 billion
2008	Fiducian weathers Global Financial Crisis and delivers on its shareholder commitments without impacting staff with salary cuts or redundancies
2009	Fiducian Business Services launched for business growth development
2010	Fiducian sponsors Australian PGA Senior championship
2011	FORCe Desktop v3 debuts with new interface, navigation and tools
2012	Fiducian migrates to FasTrack, a state-of-the-art in-house platform admin system
2013	Fiducian buys practices on Sunshine Coast QLD
2014	FoFA-compliant advice and products released through FFS and FPS
2015	Company re-structures into Fiducian Group Ltd (FGL)
2017	Fiducian gross revenue climbs to $40 million
2019	Fiducian acquires MyState Retail Financial Planning in Tasmania. Buys some other business and adds about $412m in FUM.
2020	COVID-19 impacts financial markets including a 35% fall in equity markets in March 2020.
2021	FGL FUMAA surges past $10 billion. Grand fathered commission end – removes about $1m in reve ue
2022	Buys People Choice Credit Union (PCCU) – paid $13.2 m, $1bn FUM, recurring revenue $7.6m – 40 employees
2023	Auxillium fully launched – external platform admin platform – to compete with platform fintechs.

Source – Fiducian

Appendix Two – board/senior staff

FIDUCIAN
INTEGRITY • TRUST • EXPERTISE

Directors Summary

Member	Position	Expertise	Experience	Shareholdings
(Indy) Singh - OAM	**Executive Chairman -** **Founder & Managing Director** *Founded -1996*	Superannuation Wealth Management Financial Planning Leadership	Qualifications include CFP, BTech, MComm (Bus), ASIA, AFSA, and DipFA. Indy Singh founded the organisation in 1996.	10,942,685 Ordinary Shares
Frank Khouri	**NED** *Appointed –* *6th July 2007*	Accounting Audit Financial Planning Business Advisory	Qualifications include FCPA, FTIA, JP, and CPA. As a CPA accountant for over 30 years. Mr Khouri owns and operates a successful accounting practice.	268,323 Ordinary Shares
Sam Hallab	**NED** *Appointed –* *12th August 2016*	Finance Superannuation Audit Accounting	Qualifications include Bec (Accnt & Law), CA, GAICD, and FAIST. Mr Hallab has over 39 years of experience in Finance and Superannuation.	127,027 Ordinary Shares
Kerry Skellern - OAM	**NED** *Appointed –* *1st June 2023*	Strategy & Sales Marketing R&D Building & Infrastructure	Qualifications include BE (Chem, Hons), BSc, Grad Dip (Bus Admin), FAICD. Has held non-executive and chair roles in various industries.	NIL
Rahul Guha	**Executive Chairman (Fiducian Services)** *Appointed –* *May 2012*	Corporate M&A Strategy & Operations Risk Management Finance	Qualifications include FCPA, DFP, MAICD, ICAI, ICSI, ICA. He has over 20 years' industry experience, previously holding senior financial roles in ANZ, ING, ICICI Bank and ONGC.	NIL

Disclaimer and rating information

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

Speculative stocks have a high risk/high return profile. While the investment may have strong capital appreciation, there is also a significant risk of capital loss. All stock investments involve some risk. We recommend that investors read and consider the risks section of our report(s) and whether these risks are suitable for their profile.

Veritas Securities Limited has issued this report, ABN 94 117 124 535, Australian Financial Services Licence Number 297043 (**Veritas**).

Analyst certification. This report was written by Stephen Scott – 14 May 2024. The views and opinions expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) responsible for the preparation of this research receive compensation based on overall revenues of Veritas and has taken reasonable care to achieve and uphold their independence and objectivity in making any recommendations.

Stephen Scott and his family does not own FID.

Stephen Scott and his family do own small holdings in IFL and AMP

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