EQUITY RESEARCH

VERITAS SECURITIES LIMITED

Prime Financial Group

The Lincoln Indicators are good…

Acquires Lincoln Indicators – High-quality business

- Prime has secured the acquisition of Lincoln Indicators, having previously disclosed that it had a non-binding offer in the works.
- Prime has paid (up to) $15.75m with associated performance targets in place (and related earnouts) – in 80% cash and 20% shares mixture for Lincoln Indicators.
- The acquisition price could be as high as $17.9m if stretch targets are realised and ratchets down if EBITDA targets are not achieved.
- Lincoln is an investment research, portfolio platform and funds management business. Lincoln has 3,300 investors as subscribers to Stock Doctor – investment research and/or three equity funds management portfolios with about $600m under management.
- Prime has announced that Lincoln has $10m - $11m in revenue and revenue split 50/50 between funds management (portfolios) and investment advice (via subscription). Lincoln currently has an EBITDA margin of 15-20% (pre-synergies), with a mid-point EBITDA (17.5%) of ~$1.90m.
- Prime is funding Lincoln from its existing financial resources/cash, debt, and some earn-out shares.

Valuation/Commentary – Buy rated

- We estimate in our base case that Lincoln adds about +6.9% to EPS in FY26 and FY27 +6.8% and is an attractive and accretive acquisition with downside protection via the earn-out structure.
- We are leaving our FY25 revenue and EBITDA estimates unchanged, apart from a modest 1-month contribution from Lincoln.
- Prime offer value with a FY25 P/E of 10.5X and a 7.5% dividend yield.
- Prime has maintained guidance for FY25 with revenue of $50m and underlying EBITDA growth (and dividend growth of 3-5%) driven by stronger 2H25, seasonal demand and organic growth (and past acquisitions also helping).
- We derive a valuation of 28.9 cents per share (vs. 28.5 cps previously) using a combination of SoP EV/EBITDA and P/E blended valuation.

Risks – (include but are not limited to): - regulatory change, loss of key staff, cost inflation, client claims, financial markets, legal problems, licensing, new financial products (AI/cryptocurrency/ETFs), competition, cyber security, maladministration by staff, performance /integration of newly acquired businesses, processing errors, quality of advice, performance of investments, technology risks and an inability to access insurance.

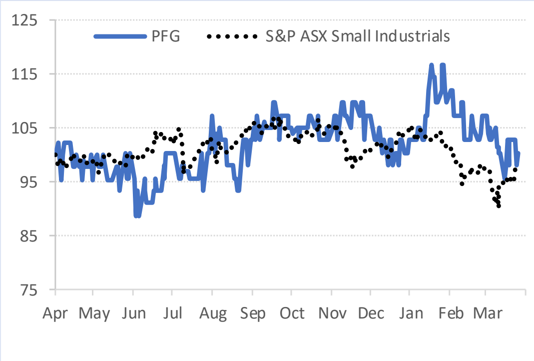
PFG.ASX **Buy**

Tuesday, 29 April 2025

Share Price	$0.225
Price Target	$0.289
Valuation Method	Combo EV/EBITDA & P/E
Market capitalisation	$57m
Enterprise value	$75m
Sector	Financial advice/Inv. banking
12 month price range	18c - 25c
Ave.vol - u/d 250 days	100,577
Shares in issue	254.4m
Top 20 holders	53%
Previous rating	Buy

June y/e $m		FY24A	FY25E	FY26E	FY27E
Sales	$m	40.7	51.2	67.4	75.1
Growth %	%		25.9	31.6	11.5
EBITDA - Grp - rep	$m	8.4	12.3	16.5	19.6
EBITDA - Mem	$m	10.2	11.6	15.8	18.9
Margin	%	20.7	24.1	24.6	26.1
NPAT -norm	$m	2.8	5.5	7.6	9.6
EPS (norm)	¢ps	1.3	2.1	2.9	3.5
FCFPS	¢ps	2.6	2.4	2.7	4.0
DPS	¢ps	1.60	1.68	1.90	2.30
Franking	%	100%	100%	100%	100%
Dividend Yield	%	7.1%	7.5%	8.4%	10.2%
PER	x	16.7	10.5	7.8	6.5
EV/EBITDA	x	7.3	6.4	4.7	3.9
Net Cash	$m	(13.7)	(17.3)	(17.7)	(15.4)

Prime Financial vs. ASX Small Industrials



Source - Factset

Prime Financial (PFG) is an advisory, capital and asset management business. Prime operates across four key areas including accounting and business advisory, wealth management, SMSF, Capital and renumeration, employee share planning. Prime owns Lincoln Indicators.

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Prime Financial

Share Price: $0.225 ps **Valuation: $0.289 ps**

Financial Performance (A$m)

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Sales	**40.7**	**51.2**	**67.4**	**75.1**
Operating costs	32.3	38.9	50.8	55.5
EBITDA - Adj/Members	10.2	11.6	15.8	18.9
EBITDA Group - Report	**8.4**	**12.3**	**16.5**	**19.6**
Depreciation and amortisation	(2.3)	(2.5)	(3.2)	(3.3)
EBIT	**6.1**	**9.9**	**13.3**	**16.3**
Associate income	0.0	0.0	0.0	0.0
Finance costs	(1.3)	(1.7)	(2.0)	(2.1)
Pre-tax Profit	**4.8**	**8.2**	**11.3**	**14.3**
Tax	(1.5)	(2.0)	(3.2)	(4.1)
Profit continue operations	3.4	6.1	8.2	10.1
Minorities	(0.6)	(0.6)	(0.6)	(0.6)
Reported profit to members	**2.8**	**5.5**	**7.6**	**9.6**
Abornmals	0.0	(0.6)	(0.8)	0.0
NPAT	**2.8**	**4.9**	**6.8**	**9.6**
	0.0	0.0	0.0	0.0

Cash Flow Statement (A$m)

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
NPAT	**2.9**	**4.9**	**6.8**	**9.6**
Add: D&A	2.3	2.5	3.2	3.3
Working cap + deferred tax	(1.9)	(0.9)	(1.3)	(0.8)
Other items (net) - acquist EO	2.5	(0.1)	(0.5)	(0.2)
Cash flows from operations	**5.7**	**6.4**	**8.3**	**11.8**
Capital Expenditures	(0.3)	(0.1)	(0.9)	(0.7)
Acquisitions/Intang^	(2.7)	(16.8)	(1.0)	(1.5)
Other items - acquist EO	(0.0)	7.6	(3.6)	(2.8)
Net cash from investing	**(3.0)**	**(9.4)**	**(5.5)**	**(4.9)**
Dividends	(2.7)	(3.8)	(4.8)	(6.1)
+/- Debt (repay)/ EO equity	(0.6)	6.8	2.2	(0.7)
Net cash from financing	**(3.3)**	**3.0**	**(2.6)**	**(6.8)**
Net change in cash	(0.5)	0.0	0.2	0.1
	0.0	0.0	0.0	0.0

Balance Sheet (A$m)

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Cash	0.5	0.5	0.7	0.8
Receivables	6.6	8.0	9.4	10.5
Client contracts/assets	11.5	13.3	17.5	19.5
Current Assets	**18.6**	**21.9**	**27.6**	**30.8**
Property, Plant & Equipment	3.2	3.1	3.7	4.1
Intangibles	58.6	73.2	71.3	69.8
Other non current assets	1.7	2.0	2.7	3.0
Non Current Assets	**63.5**	**78.3**	**77.7**	**76.9**
Total Assets	**82.1**	**100.2**	**105.3**	**107.7**
Payables	4.6	5.6	7.4	8.3
Provisions	4.2	4.6	5.4	6.0
Borrowings	14.2	17.8	18.4	16.1
Other liabilities	6.4	15.1	13.5	11.6
Total Liabilities	**29.4**	**43.1**	**44.7**	**42.0**
Shareholder Funds	**52.7**	**57.1**	**60.6**	**65.7**
check	(0.0)	(0.0)	(0.0)	(0.0)

Directors	**Shares**	**Holding**
Mr S Madder - Md/CEO/Chair	36.4m	14.3%
Mr Tim Bennett - Exe. Dir	4.8m	1.9%
Mr Matt Murphy - Exe. Dir	15.1m	5.9%
Ms Andrea Slingsby - NED		
Total	**42.7m**	**21%**

Major Shareholders (latest/best env)	**Shares**	**Holding**
Mr S Madder - CEO/MD	36.4m	14.3%
Mr Matt Murphy	15.1m	5.9%
DMX Capital	4.0m	1.6%
Total	**60.3m**	**21.8%**

Valuation Metrics	**Valuation**	**Premium**
Price Target (ps) - Combo	$0.289	28%
Share Price (ps)	$0.225	
FY24 EV/EBITDA Adj/Members(x)	7.3	
Implied FY25 EV/EBITDA (x)	7.8	
Implied FY26 EV/EBITDA (x)	5.7	
Market Capitalisation (A$m)	57.2	
Enterprise Value (A$m)	74.5	
Share count (m)	254.4	
Franking credits ($m) - 30 June 2024	3.7	

Valuation Multiples

Year ended June	**FY24A**	**FY25E**	**FY26E**	**FY27E**
P/E (x)	16.7	10.5	7.8	6.5
Price/Cash Flow (x)	8.2	9.2	7.3	5.3
EV/EBITDA mem (x)	7.3	6.4	4.7	3.9
Equity FCF yield (%)	11.6%	10.7%	12.1%	17.6%
Dividend yield (%)	7.1%	7.5%	8.4%	10.2%

Per Share Data

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
EPS diluted - adjust (¢ps)	**1.34**	**2.14**	**2.87**	**3.48**
EPS diluted (¢ps)	1.34	1.91	2.57	3.48
Op cash flow per share (¢ps)	2.8	2.5	3.1	4.2
Free cash flow per share (¢ps)	2.6	2.4	2.7	4.0
Cash (¢ps)	0.2	0.2	0.2	0.3
DPS (¢ps)	1.60	1.68	1.9	2.3
Franking (%)	100%	100%	100%	100%
Shares on issue - avg. basic (m	226.3	254.4	264.8	275.3
Shares on issue - avg. diluted (	208.5	259.4	269.8	280.3

Drivers ($Am)

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Wealth and SMSF	17.5	20.2	22.7	25.5
PABA and Capital	21.8	25.3	28.4	31.9
EPM	0.0	2.5	2.8	3.0
Altor/Credit funds	1.3	2.2	2.4	2.7
Lincoln	0.0	1.0	11.0	12.1
Corporate	0.0	0.0	0.0	0.0
Total revenue	**40.6**	**51.2**	**67.4**	**75.1**
Segment profit				
Wealth and SMSF	5.2	6.0	6.7	7.5
PABA and Capital	6.3	7.1	8.0	8.9
EPM	0.0	1.3	1.5	1.6
Altor/Credit funds	0.6	0.8	1.2	1.3
Lincoln	0.0	0.2	2.5	3.5
Corporate	0.0	0.0	0.0	0.0
Other Corporate	(2.0)	(1.9)	(2.1)	(2.0)
Adjustments	(1.7)	(1.1)	(1.2)	(1.3)
Reported EBITDA - Group	**8.4**	**12.3**	**16.5**	**19.6**
Under. EBITDA - Group	**10.9**	**12.3**	**16.5**	**19.6**
Under. EBITDA - Members	**10.2**	**11.6**	**15.8**	**18.9**

Performance Ratios %/or $

Year ended June 30	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Change in sales ($m)	7.0	10.5	16.2	7.8
Change in EBITDA ($m)	(0.8)	3.9	4.2	3.1
Leverage	-11%	37%	26%	39%
EBITDA Margin	21%	24%	25%	26%
Tax rate	30%	25%	28%	29%
ROE	5.3%	9.7%	12.5%	14.6%

Balance Sheet Ratios

Net cash/(debt) ($ m)	(13.7)	(17.3)	(17.7)	(15.4)
Fixed cover charge	n.m	n.m	n.m	n.m

Explicit guidance commentary

FY25 revenue	$50m
DPS 3-5% growth FY25	EBITDA growth
3- 5 years revenue target	$100m

Prime Financial buys Lincoln Indicators

Prime previously disclosed that it has a non-binding offer for a wealth and investment management business, noting that it is a company that provides investment research/portfolio and asset/fund management services. This transaction, which was on foot, **is now finalised via the acquisition of Lincoln Indicators.**

Lincoln Indicators focuses on the financial health of listed companies as a strong philosophical foundation for recommending these stocks and tries to remove stocks with lower-quality financial metrics.

Lincoln Indicators is an investment research, portfolio, and funds management business.

This is a precis from the Lincoln site (some editing involved).

1997 Stock Doctor was launched and has since grown to become one of the better-known SMSF and DIY share market investment platforms. Utilising unique, proprietary algorithms and quantitative data-driven research methodology, Stock Doctor provides much-needed support and guidance to DIY and SMSF investors to invest in financially healthy, high-quality companies and identify those at risk of potential corporate failure.

In 2003, Lincoln launched Managed Funds. This suite of Australian and US investment funds caters to time-poor investors who trust the Lincoln Indicators quantitative methodology but prefer to leave portfolio management to the experienced Lincoln Indicators team.

Lincoln has 3,300 clients. The Stock Doctor is the most well-known investment research product, an investment management/methodology platform. Up to 90%+ of Stock Doctor clients also use one or more of the equity portfolios. The Lincoln clients are generally not using /accessing independent financial advice from a financial planner/full-service stockbroker, and often have other substantial assets within their control, but are not using Lincoln for these other assets. Lincoln and Prime can expand their market via targeted expansion of the product set (we discuss this further in the note).

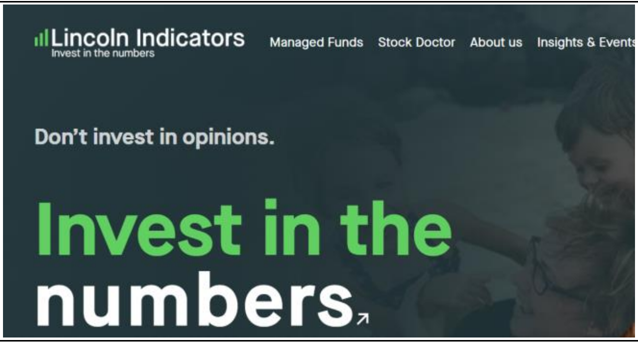
Veritas have just signed up for the Stock Doctor service(s) and has received a welcome email, news update and our first investor update/newsletter.

Introduction site, and then funds management, and then stock Doctor as options

Funds products Australian Income Fund, Australian Growth fund and US Growth Fund

The Australian funds are far bigger funds than the US growth fund

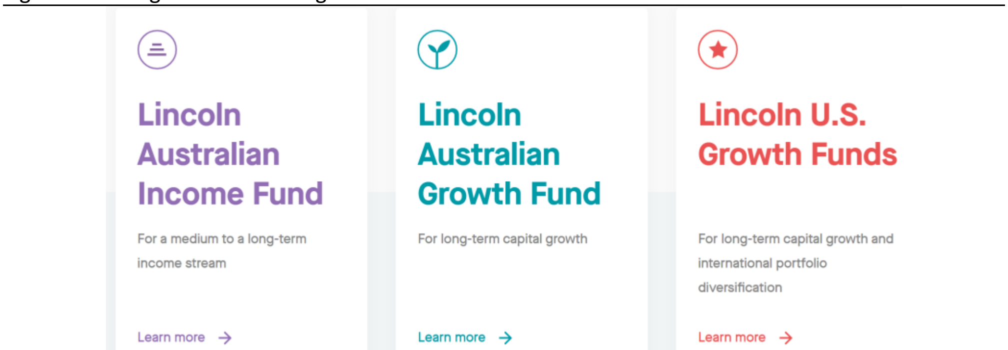
Figure 1: Lincoln Indicators website



Source: Lincoln Indicators website

The main Lincoln website landing page then noted that three equity funds management products are on offer. Lincoln has approximately $600m in funds under management for these products, using Lincoln's investment methodology/research process. We understand that up to 90%+ of the 3,300 investment clients also utilise the equity funds management on offer. As discussed previously, we also believe that the average HNW Lincoln subscriber has substantial other non-Lincoln financial assets and either does not use the equity funds management service or fully uses the investment research from Stock Doctor. Prime can offer other asset classes, such as private credit, property units trusts, property syndication, unlisted, and Altor Funds products, to these customers, who may use different providers for non-equity asset classes. Prime can also launch new funds management products within Equities that might appeal to the combined business customer base

Figure 2: Managed funds offering – Lincoln Indicators



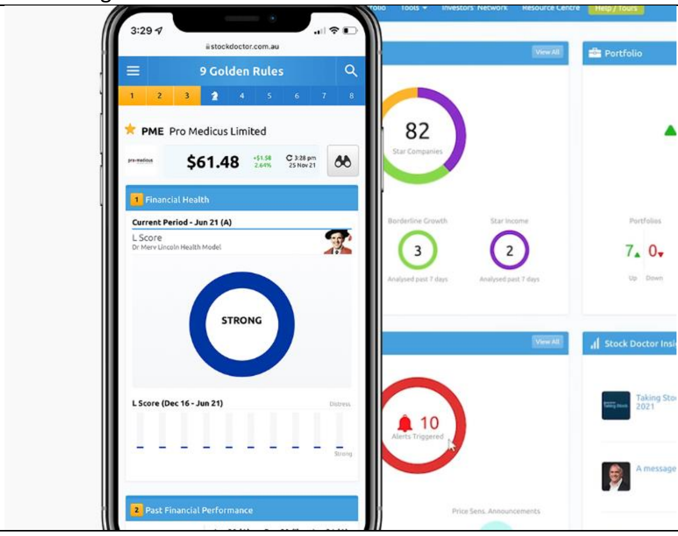
Source: Lincoln Indicators website

Almost all of Lincoln Indicator's revenue is recurring in nature.

This is a high-quality revenue stream

The Stock Doctor focuses on the financial quality of listed stocks and attempts to screen out those with poor financial health. This is particularly useful to SMSF investors and perhaps the more DIY cohort that do not have dedicated full-service stockbroker/financial adviser. We believe this unadvised/under advised SMSF and DIY market is very large and growing and can very likely benefit from Lincoln's methodology /portfolios and Prime services or a combination therein.

Figure 3: Stock Doctor site grab



Source: Lincoln Indicators website

Financial metrics of Lincoln

Lincoln has between $10m and $11m of revenue, almost all of which is recurring, with almost all of it via subscription or fund management fees. We estimate that about 50% of Lincoln's revenue relates to funds management and 50% to subscription services, and 90%+ of subscribers also use the funds management portfolio service.

The business's EBITDA margins range between 15% and 20%. Using the midpoint of disclosed current revenue and EBITDA, we derive Lincoln as having EBITDA of ~$1.90m upon acquisition. This includes some cost savings made before the acquisition.

Lincoln has 3,300 investors/subscribers, suggesting a revenue per customer of $3,181 ($10.5m revenue/3,300). We believe the churn of the pure Stock Doctor subscribers might be higher than that of the funds management investors. Interestingly, this revenue per client equates to a similar fee for financial advice via a standard financial adviser (about $3k-$4k pa).

We also note that the subscription's prepayment nature provides a favourable working capital profile and minimal bad debts. Funds management also has a reasonable working capital profile and minimal bad debts. Lincoln is a high-quality revenue business.

Based on some logical and conservative cross-sell rates, we have forecast revenue growth from the newly acquired Lincoln business.

Margins should improve from operating leverage and a trimmed cost base for the Lincoln business under Prime's umbrella

Prime is looking to grow the Lincoln client base via:

- Reactivating highly curated client functions and events for the 3,300 Lincoln investors/clients. Prime already does this for the Prime client base in an expert fashion (we have seen this firsthand) and will be able to extend the organisation of these events to the Lincoln investor base. Energised marketing should reduce churn and help regrow the subscriber base.
- We believe Lincoln's DIY/SMSF investor base would like to meet other Lincoln investors. Prime host over 50 events per year.
- Where appropriate, offer accounting and SMSF services to the Lincoln investor base.
- Lincoln's client base only uses Lincoln (equity-based) service for a small proportion of their investment needs. Prime offers capability in alternative and private credit (via Altor) and property syndications and funds management expertise that might appeal to Lincoln's client base (when it makes sense for the Lincoln investors to do so).
- Lincoln's clients may also need financial advice around succession/SMSF structure and business sales – (life events) that might also be relevant to the Lincoln investors (noting that there is a degree of DIY within the Lincoln investor base that might they need advice from time to time based on life events compared to continuous financial advice).

Cross-sell business advisory, financial planning, and other Prime accounting services to the HNW client base within Lincoln Indicators.

Cross-sell Lincoln's investment advice and portfolio service to Prime's existing and extensive client base of:

- 5,000 clients serviced within Prime wealth management and SMSF business, including 4,000 current clients.
- 2,000 SME's supported.
- 320 HNW investors within Prime now.
- 1,000 clients assisted with R&D grants
- 500 clients helped with growth and transition
- And 250 professional advice firms helped within their client service efforts.

The use of earn-outs reduces the immediate call on Prime's financial resources.

Earn-out also reduces Prime's risk if the newly acquired business does not meet the vendors'/Prime's expectations.

Earn-outs also provide upside for the vendor if the business really motors along after being acquired.

Mr Tim Lincoln is set to join the Prime team, and this is valuable addition

Deal cost

Given the total consideration of $15.75m for the Lincoln business, Prime has disclosed an acquisition price of 3.4x - 4.5x based on a target EBITDA. This implies year +3 EBITDA of $3.5m (using 4.5x in order to be conservative).

Prime also has secured approximately $600m in funds under management for an EV/FUM% derives percentage of 2.6% ($15.75m/$600m), which appears very reasonable compared to other fund peer management metrics, particularly given that these funds have performance fees attached (of which some are paid away) and the degree of cross sell that could be on offer.

The other metric is that the EV per client is $4,772 ($15.75m/3,300 clients), given the fee per client of $3,182 ($10.5/3,300) or a revenue payback of 1.5 years ($4,772/$3,182). This all appears reasonable given that the average life of a client is far longer, estimated to be 10 years.

Veritas is modelling a more conservative EBITDA forecast of $3.5m (T+3) for the Lincoln acquisition. We believe this will require revenue growth for the Lincoln business, some cross-selling, cost savings, and the sharing of services for the newly acquired Lincoln business and Prime.

Using earn-outs mostly via tranches consideration(s) (linked to EBITDA) and some equity reduces Prime's immediate call on its financial resources. Also, the deal structure reduces Prime's financial risk if the newly acquired business does not meet Prime's and the vendor's expectations. Finally, the vendors gain additional consideration if the business takes off under Prime ownership.

Revenue synergies

For example, if Prime can sell 300 incremental Lincoln advice packages/services/fund portfolios to Prime’s client base of 4,000 clients (@$3k each), this would add $900k to the revenue base at very high margins. The converse is true - if Lincoln's client base of 3,300 has 50 clients who need help selling a business or have sophisticated SME accounting needs, at $20k each, this would add $1.0m in revenue to Prime's business.

Lincoln has 30 team members and has 8 in platform, AI and programming., This team will provide additional expertise to the combined Prime group

If we say 10% of the Lincoln base of 3,300 needed upgraded SMSF or general accounting services at ~$4k each, that will equate to $1.3m (330 X $4k) in additional accounting fees.

Lincoln also experiences a degree of churn within Stock Doctor each year. Reducing this churn via a broader service offer, expanded content and perhaps more client hospitality would also help stop churn and grow the business's revenue.

A live example could be to provide high quality/timely/relevant SMSF tax and accounting content via the Lincoln newsletter to the Lincoln investors.

Price paid/deal structure

The acquisition is via cash (80%) and equity (20%), with a stacked earn-out profile linked to EBITDA. By using the earn-out structure, both the vendor and Prime mitigate their own financial risk regarding the relative performance of the business under Prime’s ownership.

The $600m in FUM has performance fee potential. Prime has not assumed any fees. Any fees would be a useful upside, noting that 50% accrue to the Lincoln vendors.

Prime notes that achieving the earnout is in everyone's interest. Importantly, there is a floor price, a maximum payout, and a cap on the shares to be issued.

Figure 4: Various EBITDA multiples and total price paid in $m

Situation	EBITDA $m	EBITDA X	Paid $m
Floor	approx.<1.8		5.0
Scenerio 1	2.0	4.0	8.0
Scenerio 2	2.5	4.0	10.0
Scenerio 3	3.0	4.0	12.0
Veritas	3.5	4.5	15.8
Scenerio 5	4.0	4.0	16.0
Max	approx.>4.5		17.9

Source: Veritas analysis – some rounding used

We have detailed our likely base case and the likely EBITDA, price paid, shares, and cash likely to be paid based on our modelling of the acquisition. We have been conservative, using a 4.5x EBITDA multiple to deliver a terminal EBITDA of $3.5m for the acquired business after three years of ownership. The EPS accretion is, therefore, staged over time, i.e., as the EBITDA rises, the value paid ratchets up.

Veritas' working assumption is that Prime pays $15.75m for Lincoln Indicators (using an 80% cash/20% script mix), secures an additional $3.5m in EBITDA upon year three, and that 14.3m shares of Prime units are issued over time at 22 cps.

Figure 5: Acquisition mathematics

Price paid	Bear	Base	Bull
Target price paid $m	8.0	15.8	15.8
Extra consideration			2.2
Final price $m	8.0	15.8	17.9
Future EBITDA target			
EBITDA Multiple paid X	3.9	4.5	3.9
Implied Target EBITDA $	2.1	3.5	4.6
Composition of consideration			
Cash split		80%	80%
Cash paid $m		12.6	14.3
Equity split		20%	20%
Equity cost $m		3.2	3.6
PFG price (at time of acq)		$ 0.22	$ 0.22
Shares to be issued m units		14.3	16.1

Source: Veritas analysis

New forecasts

Sales

Prime reiterated guidance for the existing Prime business for FY25, and we made minimal changes to our FY25 forecasts. We have modelled only one month of revenue contribution to Prime (from Lincoln) for FY25, a full 12 months of revenue for FY26, and some organic growth for Lincoln revenue and EBITDA into FY27, with the complete earnings EBITDA power of $3.5m into FY27.

Figure 6: Divisional revenue forecasts for Prime – including Lincoln Indicators

Drivers	Jun 24 Actual	Jun 25 F'cast	Jun 26 F'cast	Jun 27 F'cast
Revenue				
Wealth and SMSF	17.5	20.2	22.7	25.5
PABA and Capital	21.8	25.3	28.4	31.9
EPM		2.5	2.8	3.0
Altor/Credit funds	1.3	2.2	2.4	2.7
Lincoln		1.0	11.0	12.1
Corporate				
Other				
Total revenue	**40.6**	**51.2**	**67.4**	**75.1**

Source: Veritas analysis

The Prime business typically has a 35%- 65% underlying EBITDA split between 1H and 2H. With Lincoln now part of the mix, the prime business's future seasonality may change.

We have also increased modestly abnormal charges in FY25 and FY26 to reflect transaction and restructuring costs from the newly acquired business. We have modelled the ending EBITDA of $3.5m, combining an almost flat cost Lincoln profile (reflecting synergies/sharing of services) and some benefits from sales growth (with the rationale previously discussed).

EBITDA

Figure 7: EBITDA forecasts

Drivers	Jun 24 Actual	Jun 25 F'cast	Jun 26 F'cast	Jun 27 F'cast
Segment profit				
Wealth and SMSF	5.2	6.0	6.7	7.5
PABA and Capital	6.3	7.1	8.0	8.9
EPM		1.3	1.5	1.6
Altor/Credit funds	0.6	0.8	1.2	1.3
Lincoln		0.18	2.5	3.5
Corporate				
Other Corporate	-2.0	-1.9	-2.1	-2.0
Adjustments	-1.7	-1.1	-1.2	-1.3
Reported EBITDA - Group	**8.4**	**12.3**	**16.5**	**19.6**
Under. EBITDA - Group	**10.9**	**12.3**	**16.5**	**19.6**
Adjustments	-0.8	-0.7	-0.7	-0.7
Reported EBITDA - Member:	7.6	11.6	15.8	18.9
Adjustments	-0.7	-0.7	-0.7	-0.7
Under. EBITDA - Members	**10.2**	**11.6**	**15.8**	**18.9**

Source: Veritas analysis

New earnings forecasts

Our new earnings forecasts assume a 6.9% EPS uplift for FY26. Shares are issued over time according to the new business's EBITDA profile. We have roughly assumed that intangibles created in the acquisition process are split into two, and that circa $7.8m gets amortised over 10 years, with the rest put into goodwill.

The acquisition is funded from the Prime's business's current financial resources (debt/cash), and new, fresh capital is issued apart from the earnout shares. The earnout structure reduces the call on Prime's immediate financial resources and allows some retained earnings to be accumulated over time to pay down the earnout obligations.

Figure 8: New earnings forecasts

Forecast Changes	Old		New		Change	
June y/e $m	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	56.4	63.0	67.4	75.1	19.5%	19.2%
Under. EBITDA - Members	**13.4**	**16.1**	**15.8**	**18.9**	**18.5%**	**17.4%**
Reported EBITDA - Group	14.1	16.1	16.5	19.6	17.6%	21.8%
D&A	(2.4)	(2.4)	(3.2)	(3.3)	31.8%	36.0%
EBIT	11.6	13.6	13.3	16.3	14.6%	20.2%
Finance costs	(1.2)	(1.1)	(2.0)	(2.1)	59.0%	87.1%
Pre-tax profit	10.4	12.6	11.3	14.3	9.3%	13.4%
Tax	(2.8)	(3.4)	(3.2)	(4.1)	13.3%	21.9%
NPAT continuing ops	7.6	9.2	8.2	10.1	7.8%	10.3%
Minorities	(0.6)	(0.6)	(0.6)	(0.6)	0.0%	-5.4%
NPAT - norm (Members)	**7.0**	**8.6**	**7.6**	**9.6**	**8.4%**	**11.4%**
Shares/other	(0.4)	-	(0.8)	-	higher	higher
NPAT -report	6.6	8.6	6.8	9.6	2.8%	11.4%
EPS diluted - adjust (¢ps)	2.68	3.26	2.87	3.48	**6.9%**	**6.8%**
DPS	1.90	2.30	1.90	2.30	0.0%	0.0%
Cash flow from operations	7.9	10.3	8.3	11.8	5.4%	14.9%
Share count dil (m)	262.7	265.9	269.8	280.3	2.7%	5.4%

Source: Veritas analysis

Wealth Markets

A recap from our previous report: It is well-documented that Australian wealthy investors often have unmet needs, and the Lincoln acquisition strengthens this part of the Prime business.

Prime is addressing that segment by cross-selling to existing clients and setting up curating subject matter experts with high-quality content to market to future and current customers via presentations and events.

Prime is also assisted by the continuous change among prominent wealth managers such as Insignia (IFL.ASX, not covered), AMP (AMP.ASX, not covered), and the major banks, all of which are retreating from these markets and cannot easily deliver this sort of service. The Big Four accountants also have their fair share of distractions, and industry super funds can't deliver this service because they are set up for mass marketing.

Figure 9: Demographic profile of Affluent investors

	Emerging Affluent $1m-$2.5m	Established Affluent $2.5m-$5m	Advanced HNW $5m-$10m	UHNW $10m-$70m
Portfolio growth in 2024	7.9% (from 3.3% in 2023)	9.5% (from 6.3% in 2023)	9.8% (from 6.5% in 2023)	11.6% (from 3.3% in 2023)
Unmet advice needs	60%	55%	57%	60%
Top advice needs	Retirement planning (27%)	Inheritance and estate planning (39%)	Inheritance and estate planning (27%)	Strategies to reduce tax obligations (42%)

Source: Praemium (PPS.ASX): Australia high net worth investors report – as used in Prime 1H25 result presentation

The Prime cross-selling methodology is outlined below. HNW investors tend to have a rolling group of diverse financial needs, and one change often requires further help/advice/service.

Figure 10: Prime cross-sell matrix - noting Lincon is added in

Cross Sell						
Service	Client 1	Client 2	Client 3	Clinet 4	Client 5	Client 6
Accounting						
SMSF						
Trust Advice						
Business Advice/R&D						
Business Sale						
Investment Proceeds						
Lincoln Indicators						
Funds Management						

Source: Veritas Research

The Prime Accounting and Business Advisory Division (PABA) and HNW see transactions picking up in 2H each year as business owners increase material business decision-making activity and make buy/sell/borrower decisions before the end of the financial year (and not during summer).

Prime is expanding service lines, niches, and geographies and adding people capability (with client bases and acquiring Lincoln), further enhancing the offer.

Prime benefits from being a mid-sized player that can deliver on economies of scale compared to smaller players /services while avoiding the pitfalls of being overly large (big four banks/accountants). Prime has also established a centralised service function with over 30 staff (and with investment) to help deliver efficiencies and a higher level of service across the business divisions.

The overarching philosophy is to offer emerging businesses, founders, and HNW clients a series of interconnected (One Connection) solutions that include (but are not limited to) services from accounting for their emerging founder-led business to tax, grants, employee share plans, SMSF/trusts advice, M&A, corporate advice, business sale, potential investment of proceeds/wealth, and now Lincoln indicators.

Risks – (include but are not limited to): - regulatory change, loss of key staff, cost inflation, client claims, financial markets, legal problems, licensing, new financial products (AI/cryptocurrency/ETFs), competition, cyber security, maladministration by staff, integration /performance of newly acquired businesses, processing errors, quality of advice, performance of investments, technology risks and an inability to access insurance.

Summary and valuation – buy retained

Prime has provided FY25 revenue guidance of $50m.

Expected to generate 15-20% revenue growth and underlying EBITDA growth and 3-5% dividend growth

The goal is to reach $100m in a 3-to-5-year time frame.

- We value the Prime business at 28.9 cps (vs 28.5 cps previously) via a combination valuation of both an EV/EBITDA sum of the parts valuation and P/E valuation.
- The EPS accretion from the Prime acquisition is also supportive with EPS acceleration in FY26 of +6.9% and +6.8% in FY27.
- Synergies available to Lincoln include events, marketing, technology, HR, people, and property that can be shared across the larger group.
- Ongoing drivers include accretive acquisitions, strong organic growth rates and favourable supply and demand dynamics across almost all of the businesses in which Prime operates.
- Up to 70-80% of Prime's revenue recurs, and this positive characteristic is further enhanced by the acquisition of Lincoln Indicators. The quality of Lincoln revenue is high, and the working capital is generally very favourable, given that it is linked to subscriptions/funds management products.
- Prime's core business activities are considerably less cyclical than many other parts of the Australian economy, and this is an increasingly useful attribute and warrants a relative premium valuation, not a discount.
- Prime will continue adding the capability to expand service lines and offer multiple and definable growth vectors.
- Distracted competition in some parts of the financial advice industry reduces competition and creates recruitment/acquisition optionality for Prime (and Lincoln). We argue that the level of distraction has increased for some material players within financial services. Further weary advisers and others might be prepared to give a new owner/structure "a go" before leaving/ considering their options - we feel that we are at this point for some.
- Structural change has increased barriers to entry for financial services (qualifications, work experience, exam) and the value of Prime's established business.
- Lincoln had already trimmed some costs within their business prior to the acquisition by Prime. Lincoln can also share some commercial functions within the larger Prime Group and rationalise/share business functions such as property, IT, finance, and marketing to deliver further savings. Prime will also activate Lincoln's client base with quality events and presentations. Lincoln's subscribers and Prime's investors can be carefully cross marketed to.

Prime Financial Group

Prime is an advice, capital, and asset management group that has been in business for 26 years and has $1.9bn in FUM. It employs 219 people (and is growing) and has four primary service lines. Prime also has offices in Australia and offshore. Prime recently acquired Lincoln Indicators.

Two main business segments operating across four major business lines

Prime operates in two divisions that operate in 2 main areas (respectively):

Prime Accounting and Business Advisory (PABA) – Business segment

1. **Accountancy and business advisory**: - services include Accountancy & Tax Compliance, business growth advisory, business strategy, Outsourced CFO, accounting services and grants and R&D tax incentives. This business segment currently employs 57 people.
2. **Capital and Corporate Advisory** - Equity and debt advisory, finance, corporate M&A, valuation, consulting, share plans and remuneration. This business can provide advice for transactions such as M&A, combinations, divestments, disposal, restructures, and strategic exits. The business has an extensive network across various sectors, from PE to family offices. The division can also raise equity and debt via hybrid instruments. Strategic advice includes deal structuring, planning, growth options, funding strategies, business introduction, financial analysis, and negotiation. This business segment currently employs 22 people.

Wealth Segment – Business Segment

3. **Wealth Management**: Strategic financial advice, superannuation, life insurance, retirement planning, investment planning, funds management for HNW and wholesale investors, and provision of wholesale investment opportunities. This business has $1.3bn in FUM. Offerings include property-backed credit and equity, as well as alternatives such as private credit and equity. The recently acquired Altor business sits within this division. This business has over 2,000 clients and employs 39.
4. **Lincoln Indicators** is an investment research, portfolio, and platform funds management business. Lincoln has 30 staff, $600m in FUM, and 3,300 clients. The investment services/research are, in part, delivered via the well-known Stock Doctor
5. **SMSF** – Advice, establishment, administration, and compliance services.
6. **Centralised /shared services** – 34 people

Figure 11 Profile of Services (noting this has expanded to Funds/wealth management and employment plan management in recent times)

Source: Prime presentation(s)

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.

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Stephen Scott and his family do not own FID, CAF and PFG. Stephen Scott's super fund has a holding in a direct property syndicate (Bondi) managed by Prime.

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