

A photograph of a man in a light blue long-sleeved shirt lifting a young child with blonde hair into the air. The child is wearing a red and white plaid shirt. They are in a grassy park with large trees and a body of water in the background. A semi-transparent dark grey box is overlaid on the right side of the image, containing the title and company information.

# Half-year and Acquisition Update

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SPRING FG LIMITED (ASX: SFL)

2 MARCH 2017

# Corporate overview

Spring FG is an emerging financial services group with specialisation in the Australian SMSF and residential investment property markets

## Company profile

- Spring Financial Group (“Spring FG”) is a financial services company specialising in the high growth **self managed superannuation fund** (“SMSFs”) and **residential investment property** markets
- Key product and service offerings including **financial planning, investment advice, insurance and superannuation, finance, estate planning, residential investment and tax & accounting**

## Board and management in top 20 holders

|   |       |
|---|-------|
| Keith Cullen ( <i>Founder and Managing Director</i> ) | 27.3% |
| Chris Kelesis ( <i>Executive Director</i> )           | 15.9% |
| Frank Paul ( <i>Group Head of Advice</i> )            | 4.0%  |
| Mitchell Ansiewicz ( <i>Wealth Management GM</i> )    | 3.9%  |

## Financial information

|                                |                 |
|--------------------------------|-----------------|
| Share price (28-Feb-17)        | A\$0.23         |
| Number of shares               | 127M            |
| <b>Market capitalisation</b>   | <b>A\$29.2M</b> |
| Cash (31-Dec-16)               | A\$1.0M         |
| Debt (31-Dec-16)               | -               |
| <b>Enterprise value</b>        | <b>A\$28.2M</b> |
| <b>FY2016 final dividend</b>   | <b>1.0 cent</b> |
| <b>FY2017 interim dividend</b> | <b>0.5 cent</b> |

Board and management team well represented in top 20

# Half-year to 31 December 2016

## Key Financial Data

|                 |             | Prior corresponding period |
|-----------------|-------------|----------------------------|
|                 | 31 Dec 2016 | 31 Dec 2015                |
| Revenue         | 6,120       | 5,413                      |
| Direct costs    | 707         | 282                        |
| Expenses        | 4,294       | 3,735                      |
| EBITDA          | 1,118       | 1,395                      |
| EBIT            | 919         | 1,132                      |
| NPAT            | 702         | 810                        |
| Shares on Issue | 127.0M      | 125.4M                     |
| EPS (cents)     | 0.56        | 0.69                       |

*Revenue up 14% on the prior corresponding period*



# Revenue, profits and dividend

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- Revenue up 14% on prior corresponding period (PCP) to \$6.1M
- Receipts from customers up 17.9% on PCP to \$5.64M
- Cash and current cash receivables increased 12.8%% to \$6.78M over period
- NPAT down 13% on PCP impacted by cost increases associated with expansion
- Interim fully-franked dividend for FY2017 of 0.5 cents per share declared

*A full-franked interim dividend of 0.5 cents has been declared*

# Balance sheet and cash movements

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- Cash receipts from customers during the period were up 17.9% on the PCP to \$5.64M (2015: \$4.79M) with payments to suppliers up 12.8% to \$5.08M (2015: \$4.5M).
- Cash and current cash receivables increased 12.8%% to \$6.78M compared to \$6.01M at 30 June 2016.
- The Company's final FY2016 fully-franked dividend of \$1.25M was paid on 28 November 2016.
- Total assets increased 1.7% to \$19.67M compared to \$19.35M and total liabilities increased 2.0% to \$3.41M compared to \$3.34M at 30 June 2016.
- Net assets increasing by 1.6% to \$16.26M compared to \$16.0M at 30 June 2016 and net tangible assets (NTA) increasing by 0.5% to \$7.92M compared to \$7.88M at 30 June 2016.
- The Group has no bank or other financing or debt facilities (either undrawn or drawn) in place as at 31 December 2016.

*The Company's balance sheet remains in a sound position*

# Operational and corporate highlights

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- Entered into joint-venture with Tessa Residential Pty Ltd (Tessa) to provide property management services to the Group's clients. And assigned management rights at "Mode Apartments" to Tessa.
- Referral fees and contractual equity in property management contracts.
- The arrangements resulted in total revenue during the period of \$372,000.
- Melbourne (company operated) retail branch now open, Erina franchise branch construction delayed but delivery expected 1 July
- In process of finalising Brisbane retail branch and premises search on in earnest in a number of key regional areas
- Investor roadshow presentation will provide further details in coming weeks, our focus today is on the Financial Choice acquisition

*Property management JV and retail branch rollout has commenced*

# Details of Acquisition

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- SFL to acquire 100% of Financial Choice Pty Ltd
- Financial Choice was founded by its CEO Russell Medcraft (former AMP exec) more than 20 years ago
- Provides full service personal financial advice with a focus on SMSFs
- Additionally, has a large general advice book of around 15,000 retail clients
- Services include financial advice, dealing services, SMSF advice and administration services
- Offices in Sydney and Melbourne
- Website [www.financialchoice.com.au](http://www.financialchoice.com.au)

*An ideal acquisition target with a long track record of success*

# Financial Choice – Key Statistics

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- \$325M traditional funds under management (FUM)
- Traditional FUM platformed in equities, fixed interest, model portfolios and ETFs
- Total revenue of \$1.8M. Recurring revenue of \$1.74M
- High recurring revenue and low cost base, with six current staff, result in pro-forma EBITDA of \$1.22M (71%)
- 15,000 SMSF and retail clients
- 200 SMSF clients with an average balance of \$750K

*\$325M of FUM and a large book of retail clients*



# Acquisition Terms

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- Price \$3.8M (plus vendor performance upside of up to \$1.0M)
- EBITDA multiple 3.0 times historic (to up to 3.75)
- NPAT multiple 4.6 times historic (to up to 5.8 times)
- Split of consideration:
  - \$2.0M cash on settlement
  - 2.5M SFL shares at \$0.20 per share on settlement (escrowed for 12 months)
  - 6 month deferred payment of \$1.3M
  - 18 month performance upside payment of up to \$1.0M

*A well structure settlement and payment program*

# Key Financial Metrics

## Key Operational Parameters

|  | SFL existing | Financial Choice | Pro-forma |
|--|--------------|------------------|-----------|
| Total Assets Under Advice              | \$525M       | \$325M           | \$850M    |
| Average SMSF Balance                   | \$380,000    | \$750,000        | \$500,000 |
| SMSF Clients                           | 430          | 200              | 630       |
| Total Clients including Retail Clients | 2,100        | 15,000           | 17,100    |
| FY2016 Recurring Revenue               | \$2,820      | \$1,740          | \$4,560   |
| FY2016 Recurring Revenue % Total       | 24%          | 97%              | 34%       |

*A large under-serviced retail client base with significant upside potential*

# Benefits to SFL

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- Brings SFL total assets under advice to circa \$850M
- Increases SFL pro-forma FY2016 recurring revenue to \$4.6M or 34% of total FY2016 pro-forma
- Increases SFL client accounts from 2,100 to 17,100
- Increases SFL SMSF clients to 630 (45% increase)
- Immediately EPS accretive with exceptional EBITDA ratio
- Significant leverage to cross market SFL full product offering to 15,000 new retail clients

*Improves diversification of asset allocations across client portfolios*

# FY2016 Pro-forma historical – adjusted for acquisition

## Key Financial Data

|                 | SFL Existing | Financial Choice | Combined pro-forma |            |
|-----------------|--------------|------------------|--------------------|------------|
|                 |              |                  | FY2016             | % Increase |
| Revenue         | 11,572       | 1,802            | 13,374             | 16%        |
| EBITDA          | 2,778        | 1,281            | 4,058              | 46%        |
| EBIT            | 2,302        | 1,181            | 3,488              | 51%        |
| PBT             | 2,285        | 1,181            | 3,466              | 52%        |
| NPAT            | 1,604        | 827              | 2,430              | 52%        |
| Shares on Issue | 127.0M       | -                | 129.5M             | 2%         |
| EPS (cents)     | 1.3          | -                | 1.9                | 49%        |

*An immediately earnings accretive acquisition*

# Listed Peer Companies

Spring FG is even more compelling against its peers post acquisition as the table below summarises.

Based on current price

|                           | Spring FG<br>(current) | Yellow Brick<br>Road | Centrepont<br>Alliance | Fiducian<br>Group | Bell<br>Financial<br>Group | Mortgage<br>Choice | Clearview<br>Wealth | Spring FG<br>(FY2016<br>pro-forma) |
|---------------------------|------------------------|----------------------|------------------------|-------------------|----------------------------|--------------------|---------------------|------------------------------------|
| Market Cap \$M            | 29.2M                  | 42M                  | 111M                   | 128M              | 192M                       | 306M               | 892M                | 29.8M                              |
| EBITDA Multiple           |                        |                      |                        |                   |                            |                    |                     |                                    |
| NPAT Multiple             | 18.2                   | N/A                  | 26.1                   | 19.4              | 11.6                       | 16.1               | 32.6                | 12.3                               |
| FY2016 Dividend Yield (%) | 4.4%                   | None                 | 3.1%                   | 3.4%              | 7.6%                       | 6.8%               | 3.9%                | 5.3%                               |

Data based on 28 February 2017 closing prices.

SFL pro-forma assumes dividend payout of 65% of pro-forma NPAT and 2,500,000 vendor shares issued

DRP placement price and current share price present significant upside on pro-forma historicals



A photograph of a young child in a black tank top and white shorts, bent over and watering a garden with a green hose. The scene is set outdoors with lush green plants and a house with green siding in the background. The sun is shining brightly, creating a warm, golden light. A semi-transparent dark grey box with the text "Thank you" is overlaid on the right side of the image.

Thank you

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