

**Analyst**

Lafitani Sotiriou 613 9235 1668

**Authorisation**

Jonathan Snape 613 9235 1601

# Netwealth (NWL)

## Winners and Losers

**Recommendation**  
**Buy** (Initiation)  
**Price**  
**\$6.99**  
**Target (12 months)**  
**\$8.06** (Initiation)

**GICS Sector**  
**Diversified Financials**

**Expected Return**

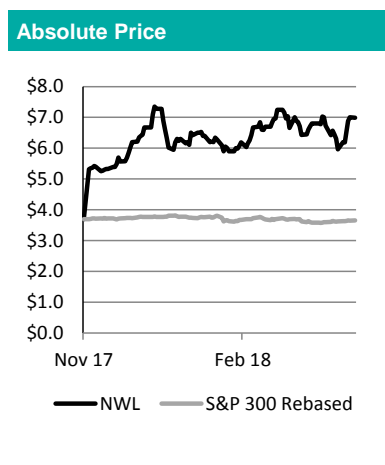
Capital growth	<b>15.3%</b>
Dividend yield	<b>1.0%</b>
Total expected return	<b>16.3%</b>

**Company Data & Ratios**

Enterprise value	<b>\$1.6 bn</b>
Market cap	<b>\$1.7 bn</b>
Issued capital	<b>237.7m</b>
Free float	<b>37.7%</b>
Avg. daily val. (52wk)	<b>\$1.6m</b>
12 month price range	<b>\$4.87 - \$7.43</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	6.88	6.20	
Absolute (%)	1.02	12.10	
Rel market (%)	1.96	14.90	



SOURCE: IRESS

### A likely beneficiary of the structural shift we are seeing

We initiate on Netwealth (NWL) at a time when we believe there is a significant structural shift occurring in the sector away from the large fully-integrated players (including the major banks, AMP and IFL) to greater independence. We believe this shift will accelerate in light of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), and see NWL as a likely beneficiary.

NWL is a specialist Investment Platform technology provider that offers a range of Superannuation and Wrap based portfolio and investment management solutions to individual investors and financial intermediaries. It appears that NWL is currently in a rapid growth phase as the company offers its platform to many advisers shifting away from the large integrated players, and as they seek more comprehensive technology solutions.

NWL has been investing in its technology, focusing on adviser ease of use, compliance, customer outcomes and other features. We believe the investment is well timed given the trends discussed above.

NWL's net-flows on its Investment Platform represented over 21.0% of industry flows in calendar 2017, despite only finishing the period with 1.9% of FUA. We see meaningful upside to this market share position given the level of net-flows. At the end of the recent March quarter, net-wealth closed with \$16.0 billion in FUA.

### Initiate with a Buy Recommendation

We value NWL utilising a DCF based valuation methodology, and our current valuation is \$8.06 per share. Based on this valuation we have set our Price Target at the same level and we initiate with a Buy recommendation.

We estimate that NWL should more than double its revenue from FY17 to FY20e and if this growth transpires, the continued positive rerating of the share price is likely to occur.

**Earnings Forecast**

Year end June 30	2017*	2018e	2019e	2020e
Total Revenue (A\$m)	61.3	84.4	106.6	133.2
Underlying EBITDA (A\$m)	24.9	43.3	58.1	72.6
NPAT (reported) \$m	16.8	20.6	40.2	50.4
NPAT (underlying) \$m	16.8	29.9	40.2	50.4
EPS (Adjusted) (cps)	6.9	12.2	16.5	20.6
EPS growth (%)		78%	35%	25%
Adjusted PER (x)	101.4	57.1	42.4	33.9
Price/CF (x)		95.6	39.7	32.3
EV/EBITDA (x)	64.8	37.2	27.8	22.2
Dividend (eps)		6	13	17
Franking (%)	n.a	100.0%	100.0%	100.0%
Yield (%)	n.a	0.9%	1.9%	2.4%
ROE (%)	18.0%	12.6%	21.0%	22.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES \*Prior to listing

# Contents

<b>Company Overview</b> .....	<b>3</b>
<b>Product Overview</b> .....	<b>4</b>
<b>Revenue Model</b> .....	<b>5</b>
<b>Sector Overview</b> .....	<b>6</b>
<b>Netwealth FUA and Net Flows</b> .....	<b>7</b>
<b>Investment Thesis and Valuation</b> .....	<b>8</b>
<b>Key Risks &amp; Timeline</b> .....	<b>9</b>
<b>Interim Earnings</b> .....	<b>13</b>

# Company Overview

## Netwealth Overview

Netwealth (NWL) is a specialist Investment Platform technology provider that offers a range of Superannuation and Wrap based portfolio and investment management solutions to individual investors and financial intermediaries. Through NWL's web-based wealth management platform, customers can access a suite of financial products and market leading investment reporting solutions which provides an efficient and transparent way to acquire, hold and administer investments.

Founded in 1999, NWL's Platform has experienced strong growth in Funds Under Administration (FUA), managing to grow market share in a sector that has traditionally been dominated by large diversified financial institutions and bank owned wealth managers. Reaching the milestone of \$1 billion in FUA in 2007, NWL closed Platform FUA of \$15.4 billion at 31 December 2017, which represented ~1.9% of the overall Platform market by FUA (Strategic Insight noted the Platform sector reached \$821.4 billion at December end 2017). Since then, NWL has closed the March quarter with \$16.0 billion in FUA.

## Platform

NWL's platform is a dynamic web-based investment management technology suite that provides an all-in-one Trading, Administration and reporting solution for Investment professionals and their clients to monitor and maintain a holistic view of their investments. The Platform has been designed and continually enhanced to meet the ever changing demands and needs of investors. Key features of the platform include:

- **Adviser Portal:** Top down Business & Client reporting;
- **Client Portal:** Consolidated & individual investment administration and reporting;
- **Research & Insights:** Domestic/International equity & Managed fund research;
- **Transaction capabilities:** Ability to transact in Domestic/International equities, Managed funds, Managed accounts, Cash & Fixed interest products with the ability to switch and rebalance funds using NWL's SMART switching technology;
- **Comprehensive reporting:** Interactive and static Adviser/Client focused portfolio valuation, transaction & income reporting; and
- **Mobile Access:** PC, Tablet and mobile access to the platforms functionality.

NWL's Platform is available to Investment intermediaries directly or via white label arrangement.

NWL's core platform offering can be divided up between four main product categories. These core products have been designed to provide clients and wealth managers with an easy to operate all-in-one investment account with a number of ancillary services also available. The four categories include Superannuation products, Wrap, Managed Funds and Managed Accounts as detailed on the following page.

# Product Overview

**Superannuation Products:** NWL offers two superannuation products on its platform, a simplified 'Super Accelerator Core' offering that provides access to Cash, Term Deposits, and NWL issued Global Specialist Series (GSS) funds; and a sophisticated 'Super Accelerator Plus' offering, which gives investors more investment flexibility with additional access to 280+ approved managed funds, ASX listed securities, International listed securities, and ~77 managed account models. NWL also operates a closed ended online portfolio service product, the Russell investments Superannuation Series (RISS), also available as a wrap product;

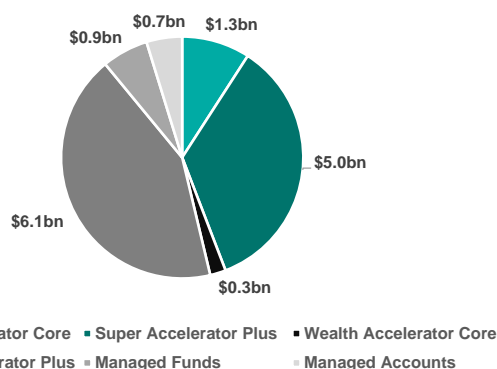
**Wrap products:** Provides investors and intermediaries a product which can be used to administer, transact and report on investments held by Individuals, jointly, under Corporate structures, and under SMSFs arrangements. The wrap product consolidates and provides an overview of a client's investments in one account for tax and reporting purposes. Similar to the Superannuation products, NWL's Wrap product offers two levels of service under its 'Wealth Accelerator Core' and 'Wealth Accelerator Plus's offerings;

**Managed funds:** NWL is the issuer and responsible entity for 14 managed funds made available exclusively through the NWL Platform. Thirteen of these funds are referred to as the Global Specialist Series Funds (GSS funds) and are designed to provide investors with simple and cost-effective way of building their portfolios. The GSS funds are operated by specialist investment managers chosen by NWL. NWL offers 3x GSS Index opportunities funds, 4x GSS Advice diversified funds, and 6x GSS Single Sector funds (including Australian Bond Index Fund, Australian Property Index Fund, Australian Equities Index Fund, International Equities Index Fund, Hedged International Equities Fund, and a Global Bond Fund).

**Managed accounts:** NWL's managed account offering is designed to give clients access to investment portfolios that are created and maintained by a number of highly regarded professional investment managers. Key features of NWL's Managed account offering include: Private or retail label offerings, Access to Multi-Asset classes including Model of Models, Aggregated trading and Netwealth's proprietary SMART scaling and rebalancing technology. NWL's platform offers ~77 managed model accounts, operated by 17 model managers. These managers included:

- Arnhem Investment Management Pty Ltd;
- Bennelong Funds Management Ltd;
- DNR Capital Pty Ltd; and
- Morningstar Investment Management Australia Ltd.

Figure 1 - Netwealth FUMA by product (\$ billion) - 30 June 2017 (last available data for this split)



SOURCE: COMPANY DATA

# Revenue Model

Between FY15-FY17, NWL has experienced revenue growth of 22.1% CAGR, with FY17 revenue of \$61.3m and 1H18 revenue of \$40.5m. NWL generates revenue from four main sources relating to functions and services available through the platform. Revenue earned through the collection of fees relating to the following activities:

**Administration Fees:** Fees are recurring in nature and are charged directly from the clients platform account on a monthly basis for maintaining accounts, providing client and adviser support, maintaining account records, and preparing reports. Administration fees are generally charged on a percentage of FUA on the platform account (including balances in cash accounts, term deposits, managed fund investments, ASX listed securities, international securities, managed account and other investments). The Administration fee is generally capped for balances over \$1m.

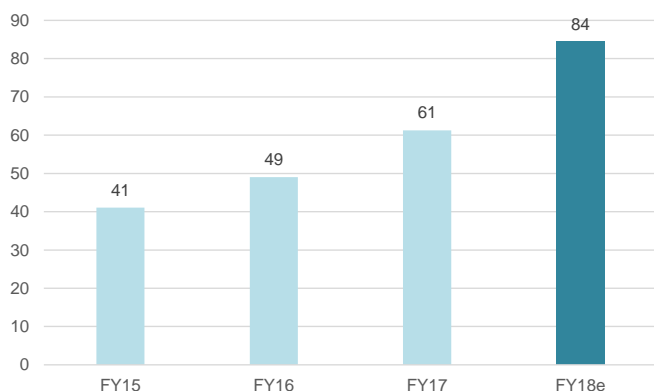
**Ancillary Fees:** NWL generates fees for supplying certain investment options through the platform including a cash administration fee (margin) on cash balances held by clients, fees on international securities, and through income from third party suppliers of Insurance products, Model managers and Fund managers.

**Management Fees:** Are fees charged in relation to the management of NWL’s Managed funds. These fees are charged as a percentage of FUM and charged prior to the calculation of unit pricing. Management fees are charged in addition to Administration fees derived from Managed Fund.

**Transaction Fees:** NWL generates revenue from transactional/Activity based fees linked to a number of transaction and administrative functions. These fees include trading brokerage, ASX listed/International Listed securities, and transfers of other investments. A number of transaction functions are available online via the NWL platform, Manual or offline Transaction conducted by NWL incur additional transaction fees.

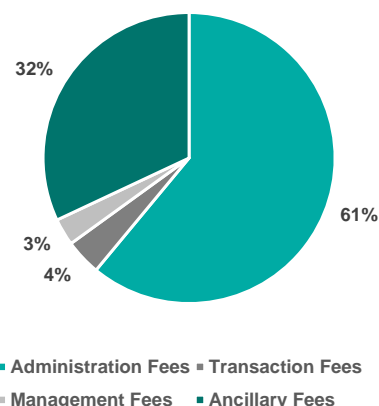
In recent years, NWL has experienced greater uptake in its premium, Super & Wrap Accelerator Plus offering, which accounts for ~87% of platform FUA as at 30 June 2017. As a result of NWL broadening revenue sources, it has seen a shift in revenue splits, with ancillary fees becoming a greater proportion of revenue composition.

Figure 2 - Netwealth Revenue (\$m)



SOURCE: BELL POTTER SECURITIES ESTIMATES AND COMPANY DATA

Figure 3 - Platform Revenue Split – FY17



SOURCE: COMPANY DATA

# Sector Overview

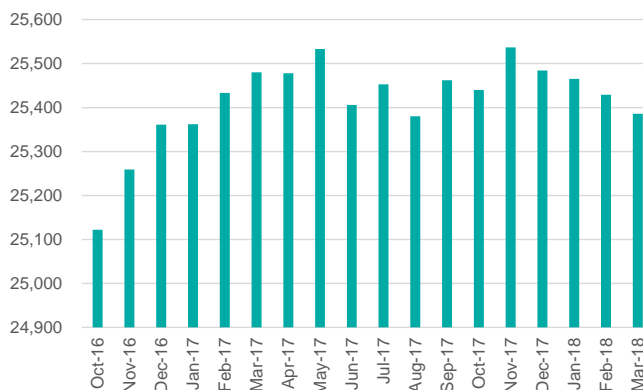
## Over 25,000 financial advisers in Australia

The definition of a Financial Adviser is an “Individual authorised to provide personal advice in relation to relevant financial products to retail clients”. This definition puts emphasis on the term “relevant financial product” which is also defined as “all financial product other than basic banking products, general insurance products, consumer credit insurance or a combination of any of these products”. Those professionals who qualify under this definition can be Authorised/Employee/Director representatives of Australian Financial Services Licensee (AFSL’s) or those individuals who hold an AFSL, this includes (but is not limited to):

- Financial planners;
- Private bankers;
- Stockbrokers; and
- SMSF advisers.

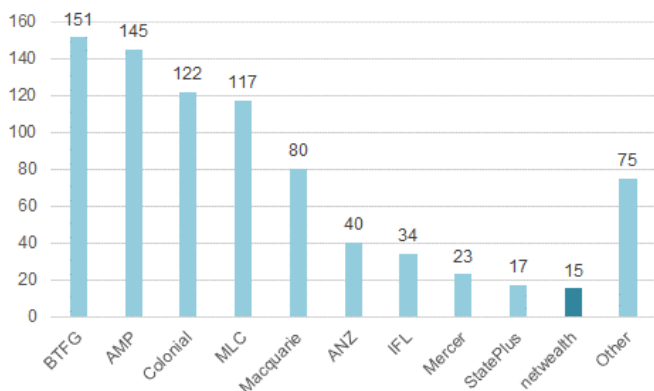
NWL currently targets each of these channels via its investment platform. Strategic Insight confirmed the Platform sector reached \$821.4 billion at December end 2017, with the four major banks, AMP, Macquarie and IFL holding the largest books, NWL is currently ranked 10<sup>th</sup>, although is gaining fast with its market share increasing from 1.1% to 1.9% in the last two years to period ending December 2017.

**Figure 4 - Financial Advisers in Australia**



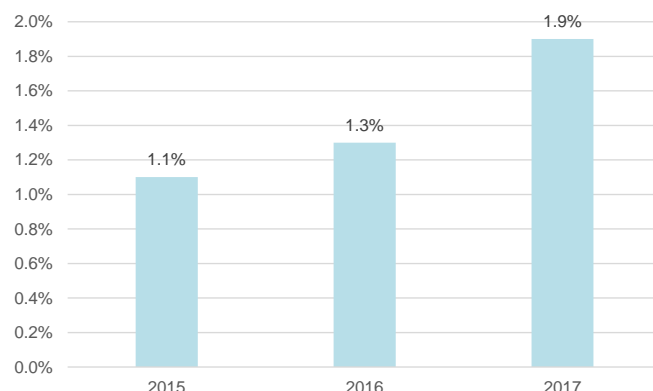
SOURCE: ASIC FINANCIAL ADVISERS DATASET

**Figure 5 - Platform market by FUA (Dec 2017) \$billion**



SOURCE: STRATEGIC INSIGHT

**Figure 6 – NWL platform market share %**



SOURCE: STRATEGIC INSIGHT

# Netwealth FUA and Net Flows

## FUA growth underpinned by existing Financial Intermediaries

Between FY15 and FY17, NWL experienced FUA compound growth of 37.6% pa, which continued into 1H18, with FUA representing closing the period with \$15.4 billion. During this period much of the FUA growth is attributed to existing Financial Intermediaries already using the NWL Platform. Of this, the majority of flows have been from the on boarding of new members to existing intermediaries. In recent years NWL has signed a number of new financial intermediaries, which included large FUA transitions and a number of private label agreements. This growth in new financial intermediaries is expected to underpin strong net flows over the medium-to-long term as new members from these Intermediaries are brought onto the Platform and as we expect NWL to win further new business.

## Managed Accounts growth, an opportunity

Launched in 2015, NWL's Managed account offering has grown considerably through the strong adoption and implementation of Managed accounts by financial intermediaries. As the SMSF and advice industry continues its shift away from a centralised model, and the demand for simplified and tailored advice increases, Specialist Platform Providers like NWL are expected to experience growth in Managed Accounts.

## Assumptions

Our key net-flow and FUA and FUMA assumptions are noted below.

Figure 7 - Assumptions

	FY17	1Q18	2Q18	3Q18e	4Q18e	FY18e	1Q19e	2Q19e	3Q19e	4Q19e	FY19e	1Q20e	2Q20e	3Q20e	4Q20e	FY20e
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Jun-20
<b>Netwealth</b>																
<b>FUA (\$m)</b>																
Opening FUA	8,142	12,747	13,710	15,436	16,008	12,747	17,400	18,709	20,033	21,174	17,400	22,678	24,050	25,439	26,844	22,678
Net-flow s	3,880	824	1,023	879	1,200	3,926	1,100	1,100	900	1,250	4,350	1,100	1,100	1,100	1,250	4,550
Market and other	725	139	703	-307	192	727	209	225	240	254	928	272	289	305	322	1,188
<b>Closing FUA</b>	<b>12,747</b>	<b>13,710</b>	<b>15,436</b>	<b>16,008</b>	<b>17,400</b>	<b>17,400</b>	<b>18,709</b>	<b>20,033</b>	<b>21,174</b>	<b>22,678</b>	<b>22,678</b>	<b>24,050</b>	<b>25,439</b>	<b>26,844</b>	<b>28,416</b>	<b>28,416</b>
<b>FUM (\$m)</b>																
Opening FUM	988	1,563	1,990	2,426	2,562	1,563	2,821	3,105	3,392	3,683	2,821	3,877	4,073	4,272	4,623	3,877
Net-flow s	557	408	284	143	228	1,063	250	250	250	150	900	150	150	300	150	750
Market and other	18	19	152	-7	31	195	34	37	41	44	156	47	49	51	55	202
<b>Closing FUM</b>	<b>1,563</b>	<b>1,990</b>	<b>2,426</b>	<b>2,562</b>	<b>2,821</b>	<b>2,821</b>	<b>3,105</b>	<b>3,392</b>	<b>3,683</b>	<b>3,877</b>	<b>3,877</b>	<b>4,073</b>	<b>4,272</b>	<b>4,623</b>	<b>4,829</b>	<b>4,829</b>
<b>FUMA (\$m)</b>																
Opening FUMA	9,130	14,310	15,700	17,862	18,570	14,310	20,221	21,813	23,425	24,856	20,221	26,555	28,123	29,711	31,467	26,555
Net-flow s	4,437	1,232	1,307	1,022	1,428	4,989	1,350	1,350	1,150	1,400	5,250	1,250	1,250	1,400	1,400	5,300
Market and other	743	158	855	-314	223	922	243	262	281	298	1,084	319	337	357	378	1,390
<b>Closing FUMA</b>	<b>14,310</b>	<b>15,700</b>	<b>17,862</b>	<b>18,570</b>	<b>20,221</b>	<b>20,221</b>	<b>21,813</b>	<b>23,425</b>	<b>24,856</b>	<b>26,555</b>	<b>26,555</b>	<b>28,123</b>	<b>29,711</b>	<b>31,467</b>	<b>33,245</b>	<b>33,245</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Investment Thesis and Valuation

## Investment Thesis and Valuation

We believe there is a structural shift occurring in the Financial Planning Landscape which includes advisers moving away from the large integrated players such as the major banks, AMP and IFL, to become independent or retire. Those choosing to become independent appear to be selecting unaligned investment platforms, of which NWL is a one. We believe NWL is in a strong position to benefit from this thematic over the medium-to-longer term given its current market positioning and offering.

We value NWL utilising a DCF based valuation methodology, and our current valuation is \$8.06 per share. Based on this valuation, we initiate with a Buy recommendation. We estimate that NWL should more than double its revenue from FY17 to FY20e as detailed in Figure 8 below.

## Dividend and Payout Ratio

NWL has a target dividend payout ratio of between 60% – 80% of statutory profit, which we believe is maintainable over the foreseeable future. The first dividend payment is scheduled post the FY18 result, and will represent 2H18 and the part of 1H18 when the company listed. From thereon in, anticipate a more traditional even split between interim and final dividends in FY19 and beyond.

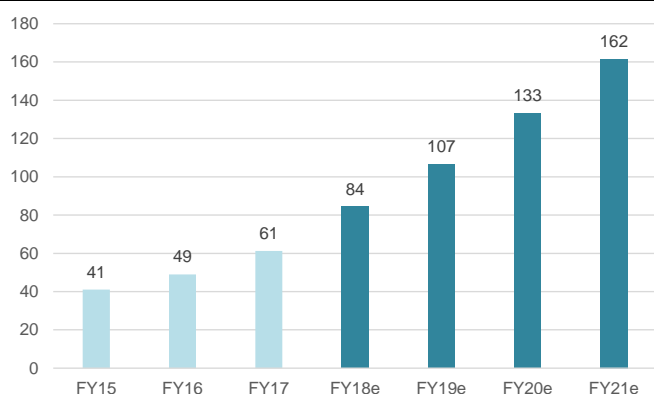
## Substantial Shareholdings

Joint Managing Director Michael Heine has 125.9m shares (~53%), other Joint Managing Director Matt Heine has 3.2m shares (~1.4%) and Leslie Heine has 22.1m shares (~9.3%) of the issued capital. Michael Heine and Matt Heine’s shareholders are in voluntary escrow with 50% released at the release of the FY18 result and 50% at the release of the FY19 result. Leslie Heine’s stake will remain in escrow until the release of the FY18 result.

## Directors

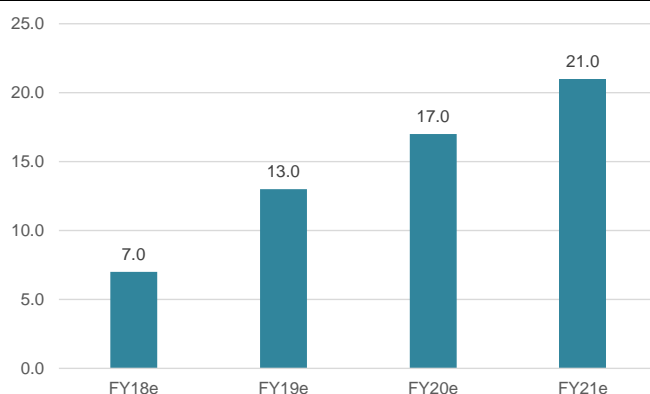
NWL is chaired by Jane Tongs (independent), since April 2000. Prior to NWL, Jane was a partner at PricewaterhouseCoopers, specialising in the financial services sector. Other directors include the two joint Managing Directors Michael and Matthew Heine, in addition to two independent directors Davyd Lewis (since July 2009) with a Legal background and Tim Antonie (since November 2015) with an Investment Banking background.

Figure 8 - Revenue Growth Estimate (\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 - Dividend Growth Estimate (cps)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Key Risks & Timeline

## Risks associated with NWL

Key risks for the stock include although are not limited to:

- **Increased compliance costs and complexity and the risk of non-compliance:**

In recent years, the level of complexity of the regulatory environment has continued to increase, bringing an increased cost and burden of compliance. The inability to identify or manage actions leading to a breach of legislation or regulation may result in reputational damages, fines, penalties or increased regulatory involvement in NWL's operations which may adversely affect the business;

- **Operational systems, processing and controls may fail:**

Inadequate or failed internal processes, people or systems, or external events may give rise to failures or disruptions in operational systems and controls (e.g. fraud, security failures, and manual processing errors). These failures may result in losses to customers that NWL is liable to compensate. Such failures or errors may have a material adverse effect on Netwealth's reputation, and its ability to retain or attract customers.

- **NWL relies upon attracting and retaining skilled personnel and continuing its positive culture:**

Key individuals have extensive experience in the financial services industry, Platforms and knowledge of NWL's business. They also have long standing relationships with others in the industry. The loss of key personnel may impact Netwealth's ability to operate its business effectively.

- **NWL may lose market share or revenues as a result of poor strategic decisions, particularly a failure to respond to market demand and remain competitive:**

NWL is required to innovate and develop its platform technology to maintain its competitive advantage within the market. NWL must also continue to update its existing technology, to avoid legacy issues, and continue to create efficiencies and scalability in its Platform. Failure to do so may cause NWL's technology systems to become obsolete or outdated which may result in loss of market share or revenue.

- **NWL may suffer loss of profits and revenues due to fee and/or margin compression or may be impacted by clients altering the mix of products and services used:**

NWL generates revenue through administration, management, transaction and ancillary fees for use of services and products on the platform, competitive or economic pressures to reduce fees may result in a decline in revenue and compression of margins.

- **NWL may suffer unauthorised third party access to its Platform resulting in service disruption, theft, regulatory issues or legal action:**

Platform technology developed by NWL by its nature may be susceptible to cyber-attack or attempts to fraudulently access account or personal information. Any accidental or deliberate security breaches or unauthorised access may give rise to theft, disruption of services, claims by clients, loss of clients and reputation, and legal or regulatory scrutiny. These events could impact NWL's reputation, business, or financial performance.

- **NWL's need to update its Platform creates risks:**

The need to make continual updates to the NWL platform could result in errors in System design or coding which may give rise to client losses or regulatory breaches.

- **NWL may be subject to regulatory changes:**

The requirements and complexity of the Australian financial services regulatory environment is continually evolving. Changes to regulation may result in additional costs relating to compliance. There is a risk that changes to legislation, regulation, legal or accounting may require NWL to modify its product offering or secure additional licencing. Overall this may affect NWL's profitability.

- **A significant decrease in domestic and global markets could adversely impact NWL's operating performance:**

Operating and financial performance of NWL is influenced by a number of market related variables including, domestic and international economic and business conditions, performance of equity and debt capital markets, interest rates, foreign exchange rates, and government fiscal, monetary and regulatory policies. An overall decline in these variables may have a negative impact on NWL's earnings.

- **NWL relies on the provision and effective performance of its IT software and infrastructure:**

NWL and its clients are dependent on the effective and uninterrupted performance, reliability and availability of NWL's Platform, software, third party data centres and communication systems. Technology failures may affect NWL's ability to deliver consistent, quality services to its clients, meet its contractual and service level obligations, attract new customers, or lead to data integrity issues or data loss. This in turn may lead to reputational damage and adversely impact Netwealth's operations, financial performance and financial condition.

- **NWL may experience brand and reputational damage:**

NWL's growth strategy and operations are highly reliant on attracting and retaining financial intermediaries and clients. Certain issues or events may arise that may adversely affect NWL's reputation. Any factor that diminishes NWL's reputation may impede the ability to attract or result in the loss of clients or financial intermediaries. This may adversely impact NWL's future growth, market position, or financial performance.

- **NWL's roles and duties may give rise to conflicts of interest:**

Conflicts of interest may arise between NWL and other entities in the group including Directors, Staff, Clients and/or third parties. Should conflicts not be properly identified or managed, NWL may suffer reputational or financial damages.

- **NWL may be unable to protect its intellectual property:**

NWL employs a number of internal practices and legal mechanisms to protect itself in able to protect the commercial value of its intellectual property. In the event NWL is unable to successfully safeguard its intellectual property, these legal mechanism do not guarantee that NWL's intellectual property will be protected.

- **NWL's insurance arrangements may not compensate for all loss:**

NWL has in place insurance policies to protect from a number of liabilities. Not all events or liabilities may be covered by the policy conditions or limits. In the even that claims exceed policy coverage NWL may be required to fund the excess using financial reserves.

- **NWL may be exposed to potential litigation, claims and disputes:**

In the course of business, NWL may be subject to litigation, disputes and other claims from time to time. Should such litigation be successful, the cost of such claims including the cost of settlement could adversely affect NWL's financial performance.

- **NWL may not have access to equity and debt:**

The inability to access equity or debt funding may impede NWL's ability to secure funding requirements to carry out prospective growth opportunities

- **The Existing Shareholders will continue to have a stake in NWL after listing:**

Following completion of the IPO, the Heine shareholders will continue to hold a significant proportion of shares, and will be represented on the board by Joint managing directors. Interests of the Heine shareholders may differ from that of other shareholders and as such, may be in a position to exercise influence over matters requiring shareholder approval. Should a discrepancy arise between interests of shareholders, this may adversely affect the share price.

- **Failure to meet forecasts:**

Forward looking statements, opinions and estimates provided in the NWL Prospectus, including forecast information, rely on a number of contingencies and assumptions. Various factors, may impact the performance of NWL and cause actual performance to vary significantly from expected forecasts.

- **Price of Shares may fluctuate:**

Following the completion of the NWL IPO, NWL will become subject to general market risks inherent to all listed securities on an exchange. A number of factors outside the control of NWL may cause the price of shares to fluctuate and/or trade below the price of the offer.

- **The trading in Shares may not be liquid:**

Once Netwealth's shares are listed on the ASX, there is no guarantee that an active trading market for the shares will develop. There may be relatively few potential buyers or sellers at any time, meaning that shareholders are unable to sell their shares. This may result in shareholders receiving a market price of their shares less than that which they paid. Further, due to the significant holding of the Heine Shareholders subject to escrow restrictions, liquidity may be impacted as a result of a low free float.

- **There is a risk of Shareholder dilution:**

Should NWL directors elect to issue shares in future, shareholders may be diluted as a result of such issue of shares or securities.

- **Taxation changes may occur:**

Changes in taxation law, or changes in the way taxation laws are interpreted, may impact the tax liabilities or future profitability of NWL or the tax treatment of a shareholders investments.

- **Australian Accounting Standards may change:**

Standards set by the Australian Accounting Standards Board (AASB) may be introduced or changed from time to time, which may affect future measurement and recognition of key income statement and statement of financial position items. This may adversely affect the financial performance and reported position of NWL's consolidated financial statements.

- **Force majeure events may occur:**

Other events that occur within or outside of Australia that could impact the Australian economy could influence the operations of NWL and the price of the company's shares.

## NWL Timeline

Figure 10 - NWL Timeline

<b>1999</b>	Netwealth is founded
<b>Apr-07</b>	Platform FUMA reaches \$1 billion
<b>Mar-10</b>	SMART technology launched (end-to-end realtime modeling & rebalancing system)
<b>Sep-12</b>	One of the first platform operator to offer multiple insurance policies
<b>Oct-12</b>	One of the first platform to launch direct international share trading
<b>Apr-15</b>	Netwealth launches managed account offering
<b>Sep-16</b>	FUMA reaches \$10 billion
<b>Aug-17</b>	FUMA reaches \$15 billion
<b>Nov-17</b>	Netwealth Lists on the ASX

SOURCE: COMPANY DATA

# Interim Earnings

**Figure 11 - Interim earnings**

<b>INTERIM INCOME STATEMENT</b>													
Y/e June 30 (\$m)	2017	1H18	2H18e	2018e	1H19e	2H19e	2019e	1H20e	2H20e	2020e	1H21e	2H21e	2021e
<b>Total Revenue</b>	<b>61.3</b>	<b>40.5</b>	<b>43.9</b>	<b>84.4</b>	<b>50.1</b>	<b>56.5</b>	<b>106.6</b>	<b>63.2</b>	<b>70.0</b>	<b>133.2</b>	<b>77.0</b>	<b>84.7</b>	<b>161.7</b>
Operating Expenses	36.3	20.0	21.1	41.1	22.8	25.7	48.5	28.8	31.9	60.6	34.6	38.1	72.8
<b>Operating EBITDA</b>	<b>24.9</b>	<b>20.5</b>	<b>22.8</b>	<b>43.3</b>	<b>27.3</b>	<b>30.8</b>	<b>58.1</b>	<b>34.5</b>	<b>38.2</b>	<b>72.6</b>	<b>42.3</b>	<b>46.6</b>	<b>88.9</b>
Depreciation & Amortisation	0.6	0.3	0.3	0.7	0.3	0.3	0.7	0.3	0.3	0.7	0.3	0.3	0.7
<b>EBIT</b>	<b>24.3</b>	<b>20.2</b>	<b>22.5</b>	<b>42.7</b>	<b>27.0</b>	<b>30.5</b>	<b>57.4</b>	<b>34.1</b>	<b>37.8</b>	<b>72.0</b>	<b>42.0</b>	<b>46.3</b>	<b>88.3</b>
Net Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>24.3</b>	<b>20.2</b>	<b>22.5</b>	<b>42.7</b>	<b>27.0</b>	<b>30.5</b>	<b>57.4</b>	<b>34.1</b>	<b>37.8</b>	<b>72.0</b>	<b>42.0</b>	<b>46.3</b>	<b>88.3</b>
Tax	7.5	6.0	6.8	12.8	8.1	9.1	17.2	10.2	11.4	21.6	12.6	13.9	26.5
<b>Operating NPAT</b>	<b>16.8</b>	<b>14.1</b>	<b>15.8</b>	<b>29.9</b>	<b>18.9</b>	<b>21.3</b>	<b>40.2</b>	<b>23.9</b>	<b>26.5</b>	<b>50.4</b>	<b>29.4</b>	<b>32.4</b>	<b>61.8</b>
One-off items	0.0	-9.3	0.0	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>16.8</b>	<b>4.8</b>	<b>15.8</b>	<b>20.6</b>	<b>18.9</b>	<b>21.3</b>	<b>40.2</b>	<b>23.9</b>	<b>26.5</b>	<b>50.4</b>	<b>29.4</b>	<b>32.4</b>	<b>61.8</b>
<b>ASSUMPTIONS</b>													
Y/e June 30 (\$m)	2017	1H18	2H18e	2018e	1H19e	2H19e	2019e	1H20e	2H20e	2020e	1H21e	2H21e	2021e
Closing FUA (\$m)	12,747	15,436	17,400	17,400	20,033	22,678	22,678	20,033	22,678	28,416	31,315	34,435	34,435
Average FUA (\$m)	10,445	13,964	16,281	15,060	18,714	21,295	19,999	24,056	26,900	25,485	29,863	32,847	31,363
Average margin (bps)	0.61	0.57	0.53	0.55	0.53	0.52	0.52	0.52	0.51	0.51	0.51	0.51	0.50

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 1 - Financial summary

Netwealth (NWL)		Price Target (A\$)	8.06	Share Price (A\$)	6.99
		Recommendation:	Buy	Market Cap (A\$m)	1,661.4
<b>INCOME STATEMENT</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
Platform revenue	60.6	83.0	104.5	130.5	158.3
Other income	0.6	1.5	2.1	2.7	3.4
<b>Total Revenue</b>	<b>61.3</b>	<b>84.4</b>	<b>106.6</b>	<b>133.2</b>	<b>161.7</b>
Employee expense	24.8	28.1	33.0	41.3	50.1
Other operating expenses	11.5	13.0	15.5	19.3	22.6
<b>Total Operating expenses</b>	<b>36.3</b>	<b>41.1</b>	<b>48.5</b>	<b>60.6</b>	<b>72.8</b>
<b>Operating EBITDA</b>	<b>24.9</b>	<b>43.3</b>	<b>58.1</b>	<b>72.6</b>	<b>88.9</b>
Depreciation & Amortisation	0.6	0.7	0.7	0.7	0.7
<b>EBIT</b>	<b>24.3</b>	<b>42.7</b>	<b>57.4</b>	<b>72.0</b>	<b>88.3</b>
Net Interest	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>24.3</b>	<b>42.7</b>	<b>57.4</b>	<b>72.0</b>	<b>88.3</b>
Tax	7.5	12.8	17.2	21.6	26.5
<b>Operating NPAT</b>	<b>16.8</b>	<b>29.9</b>	<b>40.2</b>	<b>50.4</b>	<b>61.8</b>
One-off items	0.0	-9.3	0.0	0.0	0.0
<b>Reported Net Profit</b>	<b>16.8</b>	<b>20.6</b>	<b>40.2</b>	<b>50.4</b>	<b>61.8</b>
<b>CASHFLOW</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
EBITDA	43.3	58.1	72.6	88.9	
Change in provisions	0.4	1.2	1.3	1.4	
Working capital change	-8.2	-0.2	-0.2	-0.2	
Net interest	0.0	0.0	0.0	0.0	
Tax paid	-12.8	-17.2	-21.6	-26.5	
Other	-5.4	0.0	0.0	0.0	
<b>Operating cashflow</b>	<b>17.4</b>	<b>41.9</b>	<b>52.1</b>	<b>63.6</b>	
Capex	-1.0	-0.7	-0.7	-0.7	
Net Investments	0.0	0.0	0.0	0.0	
Other	0.0	0.0	0.0	0.0	
<b>Investing cashflow</b>	<b>-1.0</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>	
Change in borrowings	0.0	0.0	0.0	0.0	
Equity raised	2.8	0.0	0.0	0.0	
Dividends paid	-8.1	-28.5	-35.7	-46.4	
Other	0.0	0.0	0.0	0.0	
<b>Financing cashflow</b>	<b>-5.3</b>	<b>-28.5</b>	<b>-35.7</b>	<b>-46.4</b>	
<b>Net change in cash</b>	<b>21.9</b>	<b>12.7</b>	<b>15.8</b>	<b>16.6</b>	
<b>Cash at end of period</b>	<b>47.2</b>	<b>59.9</b>	<b>75.7</b>	<b>92.3</b>	
<b>BALANCE SHEET</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
Cash	22.1	47.2	59.9	75.7	92.3
Receivables	13.7	7.1	9.2	11.3	13.7
PPE	2.6	2.9	2.9	2.9	2.9
Intangibles	0.1	0.1	0.1	0.1	0.1
Other	9.2	21.9	21.9	21.9	21.9
<b>Total assets</b>	<b>47.7</b>	<b>79.3</b>	<b>94.0</b>	<b>112.0</b>	<b>130.9</b>
Payables	5.0	6.5	8.4	10.4	12.6
Debt	0.0	0.0	0.0	0.0	0.0
Provisions	3.9	4.1	5.3	6.6	7.9
Other	0.5	1.9	1.9	1.9	1.9
<b>Total liabilities</b>	<b>9.4</b>	<b>12.6</b>	<b>15.6</b>	<b>18.9</b>	<b>22.4</b>
Shareholders' equity	879.2	23.2	23.2	23.2	23.2
<b>Total shareholders funds</b>	<b>38.3</b>	<b>66.7</b>	<b>78.4</b>	<b>93.1</b>	<b>108.5</b>
W/A shares on issue	237.7	237.7	237.7	240.9	244.1
W/A diluted shares on issue	244.1	244.1	244.1	244.1	244.1
<b>VALUATION DATA</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
Net profit (underlying)	16.8	29.9	40.2	50.4	61.8
<b>Underlying EPS (c)</b>	<b>6.9</b>	<b>12.2</b>	<b>16.5</b>	<b>20.6</b>	<b>25.3</b>
EPS growth(%)		77.5%	34.6%	25.3%	22.7%
P/E ratio (x)	101.4	57.1	42.4	33.9	27.6
CFPS (c)		7.3	17.6	21.6	26.1
Price/CF (x)		95.6	39.7	32.3	26.8
DPS (c)	0	6	13	17	21
Yield (%)	0.0%	0.9%	1.9%	2.4%	3.0%
Franking (%)	0%	100%	100%	100%	100%
EV/EBITDA (x)	64.8	37.2	27.8	22.2	18.2
Price/book (x)	43.4	24.9	21.2	18.1	15.7
<b>PROFITABILITY RATIOS</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
<b>EBIT/sales (%)</b>	<b>40%</b>	<b>51%</b>	<b>54%</b>	<b>54%</b>	<b>55%</b>
Return on assets (%)	14%	11%	18%	18%	19%
Return on equity (%)	18%	13%	21%	22%	23%
Dividend cover (x)	0.0	0.7	0.8	0.8	0.8
Effective tax rate (%)	31%	30%	30%	30%	30%
<b>LIQUIDITY AND LEVERAGE RATIOS</b>					
Y/e June 30 (\$m)	2017	2018e	2019e	2020e	2021e
Net debt/(cash) (\$m)	-22.1	-47.2	-59.9	-75.7	-92.3
<b>Net debt/equity (%)</b>	<b>-58%</b>	<b>-71%</b>	<b>-76%</b>	<b>-81%</b>	<b>-85%</b>
Current ratio (x)	3.5	5.9	5.7	5.8	5.7
<b>INTERIMS</b>					
Half end December 31 (\$m)	1H18	1H19e	1H20e	1H21e	1H22e
Sales revenue	40.5	50.1	63.2	77.0	91.8
<b>EBIT</b>	<b>20.2</b>	<b>27.0</b>	<b>34.1</b>	<b>42.0</b>	<b>50.2</b>
Pre tax profit	20.2	27.0	34.1	42.0	50.2
<b>Underlying profit</b>	<b>14.1</b>	<b>18.9</b>	<b>23.9</b>	<b>29.4</b>	<b>35.1</b>
One-off items	-9.3	0.0	0.0	0.0	0.0
<b>Reported profit</b>	<b>4.8</b>	<b>18.9</b>	<b>23.9</b>	<b>29.4</b>	<b>35.1</b>
Interim DPS (cents)	0.0	6.0	8.0	10.0	12.0
<b>ASSUMPTIONS</b>					
	2017	2018e	2019e	2020e	2021e
<b>Investment Platform (\$m)</b>					
Closing FUA	12,747	17,400	22,678	28,416	34,435
Average FUA	10,445	15,060	19,999	25,485	31,363
<b>Managed Fund &amp; Account (\$m)</b>					
Closing FUM	1,563	2,821	3,877	4,829	5,676
Average FUM	1,276	2,272	3,375	4,335	5,250

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
<b>Industrials</b>			
Sam Haddad	Industrials	612 8224 2819	shaddad
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Tim Piper	Industrials	612 8224 2825	tpiper
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
<b>Financials</b>			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials	613 9235 1668	lsotiriou
<b>Resources</b>			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Duncan Hughes	Resources	618 9326 7667	dhughes
<b>Analysts</b>			
James Filius	Analyst	613 9235 1612	jfilius
Alexander McLean	Analyst	612 8224 2886	amclean

**Bell Potter Securities Limited**

ACN 25 006 390 7721

Level 38, Aurora Place  
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as a Manager of the November 2017 IPO and received fees for that service.

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.