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Propel Funeral Partners (PFP)

Recovery in volumes underway

FY19 EBITDA in line BPe, strong momentum entering FY20

PFP announced operating FY19 EBITDA of \$23.8m, up 10.6% on pcp and in line with our \$23.7m estimate. FY19 revenue of \$95.1m was up 17.6% on pcp. Key highlights:

- **Solid organic revenue growth in 2H19:** Excluding \$13.8m in acquired revenue, FY19 organic revenue edged up 0.5% vs pcp. This follows a market induced ~6% contraction in 1H19, implying a return to solid growth in 2H19. FY19 revenue was supported by a 2.8% increase in like-for-like average revenue per funeral (ARPF) and an improvement in death volumes in 2H19 (2H19 volumes up 3.6% vs -7.8% fall in 1H19). Including acquisitions, group ARPF was up 1.4% vs pcp.
- **With strong momentum entering FY20:** Between 1 May 2019 and 31 July 2019 PFP's comparable funeral volumes lifted 8.5%, with July materially higher vs pcp.
- **Opex leverage opportunity in FY20:** PFP's operating EBITDA margin improved slightly from 24.8% in 1H19 to 25.3% in 2H19. We estimate PFP's normalised margin to be ~27% based on current business mix and therefore see opportunity for further margin gains in FY20 if volumes continue to normalise.
- **Delivering on acquisition strategy:** In FY19 PFP announced the acquisition of Newhaven Funerals (QLD), Manning Great Lakes Memorial Gardens (NSW), Morleys Funerals (QLD) and multiple acquisitions in New Zealand including Dils Funeral Services (completion expected FY20), Martin Williams Funeral Directors, Waikanae Funeral Home/Kaitawa Crematorium and Howard & Gannon Funerals. Also post-FY19 PFP announced the acquisition of Gregson & Weight, the largest funeral services provider on the Sunshine Coast in Queensland.
- **Balance sheet position snapshot:** PFP recently announced the expansion of its senior debt facilities from \$50m to \$100m. Allowing for deployment of committed funds (~\$20m for Dils Funeral & \$36m for Gregson & Weight), we estimate PFP's leverage ratio will increase to ~2.1x at end-FY20 (vs 2.0x-2.5x target range).

Earnings changes & Investment view: Retain Buy, PT \$3.56

Updating our forecasts for the result (including allowing for higher margins) and the Gregson & Weight acquisition increases our FY20/FY21/FY22 EPS by 12%/15%/11%. Including capex adjustments, our PT is revised to \$3.56 (previously \$3.54). We believe PFP remains well placed to consolidate the death care industry. Buy rating retained.

Recommendation
Buy (unchanged)
Price
\$3.05
Target (12 months)
\$3.56 (previously \$3.54)

GICS Sector
Commercial Services and Suppliers

Expected Return

Capital growth	16.7%
Dividend yield	4.1%
Total expected return	20.8%

Company Data & Ratios

Enterprise value	\$312.3m
Market cap	\$304.1m
Issued capital	99.7m
Free float	~78%
Avg. daily val. (52wk)	\$299k
12 month price range	\$2.42 - \$3.34

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	3.16	3.05	2.80
Absolute (%)	-3.48	0.00	8.93
Rel market (%)	0.99	1.08	6.64



Earnings Forecast

June Year end	2019a	2020e	2021e	2022e
Sales (A\$m)	95.1	121.2	135.4	141.9
Operating EBITDA (before fees) (A\$m)	23.8	31.5	35.9	37.6
Operating NPAT (before fees) (A\$m)	12.8	15.5	17.2	18.3
EPS operating (cps)	13.5	15.5	17.2	18.3
EPS operating growth (%)	8.1%	14.4%	11.0%	6.5%
NPAT (reported) (A\$m)	12.3	9.7	11.6	18.1
PER (on operating EPS post fee annuity) (x) (NOTE 1)	-	24.7	20.9	20.0
PER (on reported EPS) (x)	24.3	31.5	26.3	16.8
EV/operating EBITDA post fee annuity (x) (NOTE 1)	-	11.5	9.7	9.4
Dividend (¢ps)	11.5	12.4	13.8	14.7
Yield (%)	3.8%	4.1%	4.5%	4.8%
Franking (%)	100%	100%	100%	100%

SOURCE: IRESS
 BELL POTTER SECURITIES LIMITED
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SOURCE: BELL POTTER SECURITIES ESTIMATES
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FY19 EBITDA result in line vs BPe

Headline result

Propel Funeral Partners (PFP) announced underlying FY19 operating EBITDA of \$23.8m, up 10.6% on pcp and in line with our \$23.7m estimate. Operating NPAT came in at \$13.3m (vs BPe \$12.3m), up 8.1% on pcp.

FY19 revenue of \$95.1m (BPe \$96.0) was up 17.6% on pcp. On an organic basis, revenue edged up ~0.5% vs pcp, which was supported by a 2.8% increase in average revenue per funeral (ARPF) and an improvement in death volumes in 2H19 (2H19 volumes up 3.6% vs -7.8% fall in 1H19). Including acquisitions, group ARPF was up 1.4% vs pcp.

PFP's FY19 operating EBITDA margin was 25.0%, vs FY18 of 26.5%. Movement vs pcp was due to deleverage on soft volumes experienced in 1H19 and change in business mix from acquisitions. EBITDA margin improved from 24.8% in 1H19 to 25.3% in 2H19.

Figure 1 provides a summary of the result.

Figure 1 – Actual vs expected summary									
	Actuals History						Expected FY19e		Actual vs Expected
	1H18	2H18	FY18	1H19	2H19	FY19			
Total Revenue	38.9	42.0	80.9	47.1	48.0	95.1	96.0		-1.0%
% - Growth (pcp)	83.9%	68.5%	75.6%	20.9%	14.4%	17.6%	128.9%		
Operating EBITDA	11.0	10.5	21.5	11.7	12.1	23.8	23.7		0.2%
%-Margin	28.1%	25.0%	26.5%	24.8%	25.3%	25.0%	24.7%		0.3%
% - Growth (pcp)	78.5%	69.9%	74.2%	6.4%	15.6%	10.9%	126.2%		
Depn & Amort.	-1.3	-1.7	-3.0	-2.1	-2.0	-4.1	-4.3		-3.6%
Operating EBIT	9.7	8.8	18.4	9.6	10.1	19.7	19.5		1.0%
%-Margin	24.8%	20.9%	22.8%	20.4%	21.1%	20.7%	20.3%		0.4%
% - Growth (pcp)	78.9%	66.2%	72.6%	-0.7%	15.4%	6.9%	122.5%		
Net Interest (incl. net pre-paid charge)	-0.6	0.1	-0.5	-0.6	-0.4	-0.9	-1.4		
Operating Profit before Tax	9.1	8.8	17.9	9.0	9.8	18.8	18.1		3.4%
Tax	-3.0	-2.6	-5.6	-2.5	-2.7	-5.2	-5.4		
Associates/Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Operating NPAT (before fees, BPe)	6.2	6.1	12.3	6.4	6.9	13.3	12.3		7.8%
%-Margin	15.9%	14.6%	15.2%	13.6%	14.3%	14.0%	12.9%		1.1%
% - Growth (pcp)	108.3%	145.1%	125.2%	4.1%	12.2%	8.1%	101.5%		
Transaction costs / other	0.1	0.1	0.2	-0.1	-1.1	-1.2	-0.2		
Performance fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
EBITDA	11.0	10.6	21.7	11.6	11.0	22.6	23.5		-4.0%
EBIT	9.7	8.9	18.6	9.5	9.0	18.5	19.3		-4.0%
Pre-tax profit	9.2	9.0	18.1	8.9	8.6	17.6	17.9		-2.0%
Tax expense	-3.0	-2.6	-5.6	-2.5	-2.7	-5.2	-5.4		
Net Profit (after fees, before one-offs)	6.2	6.3	12.5	6.4	5.9	12.3	12.5		-1.2%
Abnormals post tax	-25.7	-1.1	-26.8	0.0	0.0	0.0	0.0		
Reported NPAT	-19.5	5.3	-14.3	6.4	5.9	12.3	12.5		-1.2%
DPS (¢ps)	0.0	6.4	6.4	5.7	5.8	11.5	11.4		0.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

FY20 OUTLOOK COMMENTS

Recent trading indicates a recovery in death volumes is underway, with PFP's comparable funeral volumes increasing 8.5% between 1 May 2019 and 31 July 2019.

In July 2019, PFP performed a record number of funerals, with comparable volumes "materially higher than expectations" and vs pcp. However, PFP noted that death volumes fluctuate over short time horizons. In July the company achieved ARPF growth within target range of 2% to 4%.

The company remains well placed to benefit from acquisitions completed and announced, and other potential future acquisitions (although timing is uncertain).

Acquisitions

During the year PFP completed or announced several attractive acquisitions including:

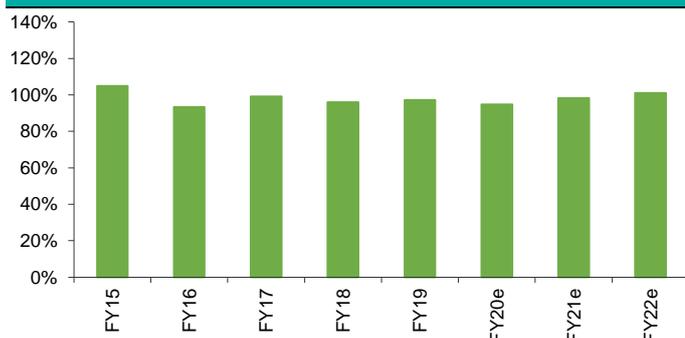
- Newhaven Funerals (North QLD) which was completed on 2 July 2018: Expands PFP's geographic footprint in Queensland and also includes a one-stop shop key asset in Mackay (circa 8 acre property with a crematoria, chapel and memorial gardens).
- Manning Great Lakes Memorial Gardens (MGLMG) announced on 19 November 2019: Further strengthens PFP's footprint in regional mid-northern NSW. MGLMG operates from a single freehold location in Pampoolah (~15 hectare property), and includes a crematorium, chapel, memorial gardens and a lawn cemetery.
- Several New Zealand acquisitions, as follows:
 1. Dils Funeral Services (and its associated entities) announced on 12 Dec 2018 with completion expected in FY20: The acquisition will expand PFP's footprint in metropolitan Auckland, particularly in the North Shore where PFP currently does not have a presence. The acquisition includes a full service funeral facility on freehold property including a ~6,600sqm parcel of vacant land.
 2. Martin Williams Funeral Directors announced on 12 December 2018: Also builds PFP's footprint in Auckland.
 3. Waikanae Funeral Home & the Kaitawa Crematorium announced on 4 Feb 2019: Strengthens PFP's footprint in New Zealand. Includes 'Cedarwood', a 3,057m² freehold funeral home located in a growth market (Waikanae is considered a retirement destination near Wellington).
 4. Howard & Gannon Funerals announced on 4 February 2019: Further strengthens PFP's footprint in New Zealand, allowing PFP to enter the coastal city of Napier.
- Morleys Funerals and its associated businesses (or the Morleys Group) announced on 18 February 2019: The Morleys Group operates from six locations, is the largest funeral services provider in Townsville, North QLD. The acquisition will allow PFP to enter Townsville, a new region where it currently does not have a presence. It also provides PFP with a small exposure to the pet cremation industry (an adjacency).

On 19 August 2019 PFP also announced the acquisition of Gregson & Weight, the largest funeral services provider on the Sunshine Coast in QLD. Gregson & Weight is a full service funeral provider with assets being acquired including three freehold properties & a parcel of vacant land (combined aggregate land size of ~13 hectares), with facilities including 6 chapels, 2 cremation facilities and 3 mortuaries. In addition PFP will lease a full service funeral property which includes a chapel, 3rd cremation facility and a mortuary.

Cash flow and balance sheet metrics

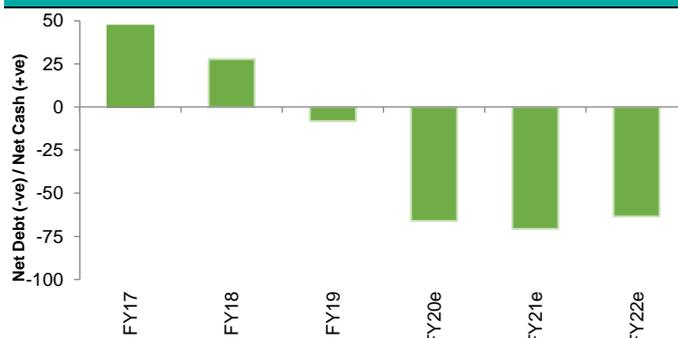
PFP has a track record of strong cash flow generation, converting a high proportion of operating EBITDA to operating cash flow after capex. Strong cash flow generation is underpinned by low working capital and low capex requirements. We forecast gross cash flow conversion to remain strong, in the region of 90-100% (as shown in Figure 2).

Figure 2 – EBITDA to cash flow conversion



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 – Net debt or net cash position over time



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

As at 30 June 2019, PFP had net debt of ~\$8m, although noting this is before circa \$20m committed to acquire Dils Funeral Services (completion expected in FY20) and circa \$36m committed to acquire Gregson & Weight (completion expected in Q2-FY20). On 5 August, PFP announced it secured an increase in its senior debt facilities from \$50m to \$100m, with PFP's uncommitted debt capacity now standing at circa \$26.2m.

Forecast changes

Updating our forecasts for the result (including allowing for higher margins) and the Gregson & Weight acquisition increases our FY20/FY21/FY22 operating EPS estimates by 12%/15%/11%. Including capex adjustments, our 12-month price target is revised to \$3.56 (previously \$3.54).

Figure 4 summaries our forecast changes for FY20e-FY22e.

Figure 4 – Earnings revisions summary

		FY20e			FY21e			FY22e		
		Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	\$m	115.5	121.2	4.9%	122.4	135.4	10.6%	128.3	141.9	10.6%
Operating EBITDA	\$m	28.8	31.5	9.7%	31.2	35.9	15.0%	33.3	37.6	12.8%
EBITDA Margin	%	24.9%	26.0%	1.1%	25.5%	26.5%	1.0%	26.0%	26.5%	0.5%
Operating NPAT (BPe)	\$m	13.9	15.5	11.5%	14.9	17.2	14.9%	16.5	18.3	10.9%
Operating EPS (BPe)	¢ps	13.9	15.5	11.6%	15.0	17.2	14.9%	16.5	18.3	10.9%
DPS	¢ps	12	12	6.9%	12	14	14.9%	13	15	10.9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Propel Funeral Partners Limited

Company description

Established in FY12, Propel Funeral Partners Limited (PFP) has since emerged as the second largest provider of funeral, cemetery, crematoria, and related services in Australia and New Zealand. PFP has a strong presence in regional areas of NSW, VIC, QLD, TAS, SA, WA and New Zealand and an emerging metropolitan presence. PFP operates under a multi-brand strategy with the majority of its funeral homes dating back over many decades. PFP was founded by Propel Investments Pty Limited (the “Manager”). PFP has appointed the Manager to exclusively manage the affairs of the company pursuant to a Management Agreement. The Manager is an established investment management firm that was founded in 2007 by former senior executives of DB Capital Partners (part of Deutsche Bank).

Investment Strategy

We rate PFP Buy with a PT of \$3.56. PFP intends to continue to build on its strong track record of making and integrating profitable acquisitions of private businesses, properties, infrastructure and related assets which operate within the death care industry in Australia and New Zealand. PFP expects to continue to invest in its funeral homes to facilitate growth, including selectively identifying potential sites in new locations and expanding (and/or re-furbishing) existing locations. PFP’s portfolio also includes land and buildings adjacent to existing funeral homes that can potentially be refurbished or expanded.

Valuation

Our 12 month valuation is \$3.56 based on DCF. Key assumptions are a WACC of 9.5% & a terminal growth rate of 4%. We also include a 10% ‘high acquisition propensity’ premium.

Risk to Investment Thesis

Key downside risks to our valuation include (but are not limited to):

- **Death volumes:** Death volumes is the most significant driver of the level of activity in the Death Care industry. A sustained decline in volumes can have a negative impact.
- **The Manager:** The success and profitability of PFP in part will depend upon the ability of the Manager to successfully implement the investment strategy. The Management Agreement has an initial term of 10 years and there are only limited circumstances in which PFP may terminate that agreement before the expiration of the term.
- **Acquisitions may not be successful:** There can be no assurance PFP will be able to identify suitable acquisitions at acceptable prices or integrate acquisitions successfully.
- **Failure to execute acquisition opportunities:** Risk PFP is unable to identify/execute suitable opportunities, and a failure to do so could adversely impact PFP’s share price.
- **Competition:** Actions by existing competitors, the entry of new competitors, or failure by PFP to continue to meet changing market conditions and customer needs.
- **Reliance on key personnel:** The unexpected loss of key management personnel, or the inability of PFP to attract personnel, may adversely affect its financial performance.
- **Pre-paid funds under management:** Pre-paid funeral contracts exposes PFP to potential escalation in costs in the period between when the contract is signed and when the funeral event is performed. If costs escalate at a higher rate versus the return on investment, this will expose PFP to losses on pre-paid contracts & erode margins.
- **Regulation:** Changes in gov’t legislation, regulation and policy may impact profitability.

Propel Funeral Partners

as at 26 August 2019

Recommendation

Buy

Price

\$3.05

Target (12 months)

\$3.56

Table 1 - Financial summary

June Year end	2017	2018	2019	2020e	2021e	2022e
Profit & Loss (A\$m)						
Sales revenue	46.1	80.9	95.1	121.2	135.4	141.9
... Change	105.7%	75.6%	17.6%	27.4%	11.7%	4.8%
Operating EBITDA	12.3	21.5	23.8	31.5	35.9	37.6
... Change	113.1%	74.2%	10.9%	32.5%	13.8%	4.8%
Deprec. & amort.	(1.7)	(3.0)	(4.1)	(6.1)	(7.0)	(7.0)
Operating EBIT	10.7	18.4	19.7	25.5	28.8	30.6
Net Interest	(0.1)	0.3	(0.3)	(2.1)	(2.9)	(3.0)
Net pre-paid contracts charge	(1.3)	(0.8)	(0.7)	(0.9)	(1.0)	(1.0)
Operating Pre-tax profit	9.3	17.9	18.8	22.5	24.9	26.5
Operating tax expense (BPe)	(3.8)	(5.6)	(6.0)	(7.0)	(7.8)	(8.3)
... tax rate	41%	31%	32%	31%	31%	31%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Operating Net Profit (BPe)	5.5	12.3	12.8	15.5	17.2	18.3
... Change	71.6%	125.2%	3.8%	21.0%	11.0%	6.5%
Operating EBITDA and NPAT post allowance for performance fee annuity estimate¹						
Operating EBITDA post fee annuity	-	-	-	27.1	32.1	33.3
Operating NPAT post fee annuity	-	-	-	12.3	14.5	15.2
Key P&L line items post transaction costs, performance fees and non-recurring items						
Transaction costs / Other	(0.7)	0.2	(1.2)	(1.1)	0.3	0.3
Performance fees	-	-	-	(6.7)	(8.4)	(0.6)
EBITDA	11.7	21.7	22.6	23.7	27.8	37.3
EBIT	10.0	18.6	18.5	17.7	20.7	30.2
Pre-tax profit	8.6	18.1	17.6	14.7	16.8	26.2
Tax expense	(3.1)	(5.6)	(5.2)	(5.0)	(5.3)	(8.1)
Net Profit before one-offs	5.5	12.5	12.3	9.7	11.6	18.1
Abs. & extras.	-	(26.8)	-	-	-	-
Reported Profit	5.5	(14.3)	12.3	9.7	11.6	18.1
Cashflow (A\$m)						
Operating EBITDA	12.3	21.5	23.8	31.5	35.9	37.6
Working capital changes	(37.7)	(5.7)	(1.7)	(3.7)	(1.3)	(0.3)
Net Interest Expense	-	0.5	(0.2)	(2.1)	(2.9)	(3.0)
Tax	(3.8)	(4.6)	(5.6)	(4.1)	(5.0)	(7.8)
Other operating items	37.6	4.8	1.0	2.0	0.6	0.7
Operating Cash Flow	8.4	16.5	17.4	23.7	27.3	27.2
Capex	(1.7)	(4.0)	(3.6)	(5.9)	(6.3)	(5.0)
Free Cash Flow	6.7	12.5	13.8	17.8	21.0	22.2
Acquisitions	(52.2)	(39.5)	(38.1)	(60.5)	(4.0)	(0.3)
Disposals	0.1	-	0.5	-	-	-
Dividends paid	-	(14.0)	(11.9)	(11.7)	(13.3)	(14.1)
Performance fee	-	-	-	(6.7)	(8.4)	(0.6)
Other investing items	(1.3)	(1.2)	0.0	-	-	-
Equity (FY18 represents IPO)	-	105.4	(0.1)	3.2	-	-
Debt increase/(reduction)	-	(41.7)	12.8	57.9	4.6	(7.2)
Balance Sheet (A\$m)						
Cash	47.7	28.3	5.3	5.1	5.1	5.1
Receivables	4.2	4.2	5.4	9.8	11.3	11.8
Inventories	1.3	2.7	3.7	4.9	5.1	5.4
Pre-paid funds, within 1 year	2.6	3.6	4.7	4.7	4.7	4.7
Pre-paid funds, after 1 year	35.9	42.0	43.2	43.2	43.2	43.2
Other current assets	0.6	1.4	1.5	1.5	1.5	1.5
Current Assets	92.3	82.3	63.8	69.2	70.9	71.7
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets	60.1	72.5	97.9	127.0	126.3	124.2
Intangibles	74.5	91.1	106.4	137.7	141.7	142.0
Other non-curr assets	2.2	2.6	2.9	2.9	2.9	2.9
Non Current Assets	136.8	166.2	207.3	267.6	270.8	269.1
Total Assets	229.1	248.5	271.0	336.8	341.7	340.7
Short term debt	0.1	0.1	0.2	0.2	0.2	0.2
Creditors	3.7	5.6	7.2	9.2	9.6	10.0
Pre-paid liabilities, within 1 year	2.8	3.9	5.1	5.1	5.1	5.1
Pre-paid liabilities, after 1 year	38.2	44.9	46.8	46.8	46.8	46.8
Provisions	5.3	5.5	5.7	6.5	6.7	7.0
Other curr liabilities	1.1	1.2	1.9	1.9	1.9	1.9
Current Liabilities	51.2	61.1	66.9	69.7	70.3	71.0
Long term debt	0.4	0.3	13.2	70.9	75.5	68.3
Creditors	-	-	-	-	-	-
Provisions	6.5	7.1	8.0	9.2	9.6	10.0
Other non curr liabilities	-	0.1	0.5	0.5	0.5	0.5
Non Current Liabilities	6.8	7.5	21.7	80.5	85.6	78.8
Total Liabilities	58.0	68.6	88.6	150.2	155.9	149.9
Net Assets	171.1	179.8	182.5	186.6	185.8	190.9
Share Capital	198.5	199.6	200.4	203.6	203.6	203.6
Reserves	0.8	(0.3)	1.1	1.1	1.1	1.1
Retained Earnings	(28.3)	(19.4)	(19.0)	(18.0)	(18.8)	(13.8)
Shareholders Equity	171.1	179.8	182.5	186.6	185.8	190.9
Outside Equity Interests	-	-	-	-	-	-
Total Equity	171.1	179.8	182.5	186.6	185.8	190.9
Net debt/(cash) \$m	(47.3)	(27.8)	8.2	66.1	70.7	63.5

Price	\$3.05
Recommendation	Buy
Diluted issued capital (m)	99.7
Market cap (\$m)	304.1
Target Price (A\$m)	\$ 3.56

June Year end	2017	2018	2019	2020e	2021e	2022e
Valuation Ratios						
Operating EPS (eps)	-	12.5	13.5	15.5	17.2	18.3
... % change	-	8.1%	14.4%	11.0%	6.5%	6.5%
Operating EPS post performance annuity	-	-	-	12.4	14.6	15.3
Reported EPS (eps)	-	(14.5)	12.6	9.7	11.6	18.2
... % change	-	-186.4%	-22.9%	19.6%	56.7%	56.7%
PE (on operating EPS) (x)	-	24.3	22.5	19.7	17.7	16.6
PE (on operating EPS post fee annuity) (x)	-	-	-	24.7	20.9	20.0
PE (on reported EPS) (x)	-	(21.0)	24.3	31.5	26.3	16.8
EV/Operating EBITDA (x)	25.35	14.55	13.12	9.90	8.70	8.31
EV/Operating EBITDA post fee annuity (x)	-	-	-	11.53	9.72	9.39
NTA (\$ps)	0.98	0.90	0.77	0.49	0.44	0.49
P/NTA (x)	3.10	3.38	3.95	6.22	6.89	6.22
Book Value (\$ps)	1.74	1.83	1.85	1.87	1.86	1.91
Price/Book (x)	1.75	1.67	1.65	1.63	1.64	1.59
DPS (eps)	-	6.4	11.5	12.4	13.8	14.7
... % pay-out	-	47.2%	86.9%	117.0%	109.3%	76.4%
Annualised Yield (%)	-	-	3.8%	4.1%	4.5%	4.8%
Franking (%)	-	100%	100%	100%	100%	100%

Performance Ratios	2017	2018	2019	2020e	2021e	2022e
Revenue growth (%)	105.7%	75.6%	17.6%	27.4%	11.7%	4.8%
Operating EBITDA growth (%)	113.1%	74.2%	10.9%	32.5%	13.8%	4.8%
EBITDA/sales margin (%)	26.7%	26.5%	25.0%	26.0%	26.5%	26.5%
EBIT/sales margin (%)	23.2%	22.8%	20.7%	21.0%	21.3%	21.5%
Gross cash conversion (%)	99.0%	96.0%	97.3%	94.8%	98.2%	101.0%
Free cash-flow yield (%)	2.2%	4.2%	4.6%	5.9%	6.9%	7.3%
ROE (%)	3.2%	7.0%	7.3%	8.4%	9.3%	9.7%
ROIC (%)	6.0%	9.7%	8.0%	7.7%	7.9%	8.3%
Capex/Deprn (x)	1.0	1.3	0.9	1.0	0.9	0.7
Net interest cover (x)	7.2	37.2	19.8	5.9	5.3	7.5
Net Debt/EBITDA (x)	n/a	n/a	0.3	2.1	2.0	1.7
Net debt/equity (%)	-27.6%	-15.5%	4.5%	35.4%	38.0%	33.3%
Net debt/net debt + equity (%)	-38.2%	-18.3%	4.3%	26.1%	27.6%	25.0%

Half yearly (A\$m)	1H17	2H17	1H18	2H18	1H19	2H19
Sales revenue	-	-	38.9	42.0	47.1	48.0
Operating EBITDA	-	-	11.0	10.5	11.7	12.1
Deprec. & amort.	-	-	(1.3)	(1.7)	(2.1)	(2.0)
Operating EBIT	-	-	9.7	8.8	9.6	10.1
Net Interest	-	-	0.1	0.2	(0.0)	(0.2)
Net pre-paid contracts charge	-	-	-0.653	-0.147	-0.543	-0.132
Operating Pre-tax profit	-	-	9.1	8.8	9.0	9.8
Operating tax expense	-	-	(2.9)	(2.6)	(2.5)	(3.1)
... tax rate	-	-	32%	29%	28%	31%
Associates	-	-	-	-	-	-
Minorities	-	-	-	-	-	-
Underlying Net Profit	-	-	6.2	6.2	6.5	6.7
Abs. & extras.	-	-	(25.7)	(1.1)	-	-
Reported Profit	-	-	(19.6)	5.2	6.5	6.7

Operating EBITDA and NPAT post allowance for performance fee annuity estimate¹						
Operating EBITDA post fee annuity	-	-	-	-	-	-
Operating NPAT post fee annuity	-	-	-	-	-	-

Key P&L line items post transaction costs, performance fees and non-recurring items	2017	2018	2019	2020e	2021e	2022e
Transaction cost / Other	-	-	-	0.1	0.1	(0.1)
Performance fee	-	-	-	-	-	-
EBITDA	11.7	21.7	22.6	23.7	27.8	37.3
EBIT	10.0	18.6	18.5	17.7	20.7	30.2
Pre-tax profit	8.6	18.1	17.6	14.7	16.8	26.2
Tax expense	(3.0)	(5.6)	(5.2)	(5.0)	(5.3)	(8.1)
Net Profit before one-offs	5.5	12.5	12.3	9.7	11.6	18.1
Abs. & extras.	-	(25.7)	-	(1.1)	-	-
Reported Profit	5.5	(19.5)	12.3	8.6	10.5	17.1

Note 1 - As a proxy for headoffice cost allocation, we calculate an annuity value based on our performance fee valuation over the initial 10 year term. Our performance fee valuation is based on our earnings growth forecasts which do not factor in acquisitions beyond those announced.

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.

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