Research as a Service

Bell Financial Group Ltd

Initiation Report

So much more off the bourse

Financial Services

17 October 2023

Bell Financial Group Ltd (ASX:BFG) is a diversified provider of financial products and software solutions within, and increasingly, outside its traditional full-service stockbroking business. In the 12 months to June 2023 ~73% of BFG's profit before tax (PBT) was derived from outside stockbroking, including Australia's only non-bank margin lending product, the licensing of internally-developed software to other financial intermediaries, third-party clearing, and fee income generated from portfolios under administration. External offerings will increase in coming years, beginning with international trading and likely to be followed by access to products such as margin lending and portfolio administration. The increased mix of non-stockbroking earnings has been aided by challenging conditions in equity markets including a ~16% decline in ASX trading volumes and ~60% decline in ECM activity over the past 12 months, with BFG's stockbroking profit before tax (PBT) declining ~65% in the 12 months to June 2023. A recovery in these metrics provides significant earnings leverage for BFG medium-term. Given the diverse mix of earnings we think a Sum of The Parts (SoTP) valuation is the most appropriate methodology to value BFG. We derive a SoTP valuation of $2.10/share with a DCF sense check of $2.15/share.

Business model

BFG is a diversified financial services business incorporating a traditional stockbroking business (retail, institutional and corporate), and a range of financial product offerings including margin lending, portfolio administration, trade execution, clearing and settlement, and cash management. The business is supported by ~100 IT professionals who have developed internal systems for account management (Fusion) and cloud-based trading platforms for Bell Direct. This platform forms the foundation for external offerings to financial planners (Desktop Broker), white labelling and third-party clearing. More intermediaries will be targeted for these products, and more products and services added to complete the offering and monetise the investment already made.

High-margin growth divisions at or reaching scale

In the 12-months to June 2023, the growth businesses of Technology and Platforms and Products and Services achieved PBT margins of 53% and 73% respectively, up from 28% and 63% respectively as operating leverage kicked in. This compared to 7% for the traditional Stockbroking business, albeit impacted by the cycle. Margin lending has had scale for some time and has delivered consistently strong earnings growth and returns. The addition of Macquarie and Bell Potter Securities volumes to Third Party Clearing has provided the necessary scale to achieve operating leverage, evidenced by a jump in H1 FY23 PBT, with more to come. BFG now has more than 265k accounts across various products and platforms, which is a ready-made market for the launch of new products and services such as international trading, and/or the expansion of existing product and services such as margin lending and portfolio administration, offering further operating leverage.

Valuation of $2.10/share or $670m market cap

Given the different earnings streams and drivers of the BFG business we have selected a Sum of The Parts (SoTP) methodology to value BFG. Our valuation using actual divisional FY23 PBTA is $2.10/share. As a sense check our DCF valuation is $2.15/share. On our FY25f estimates, our valuation implies a PER of 14x, below the long-term average of the market.

Historical earnings and RaaS' estimates (in A$m unless otherwise stated)

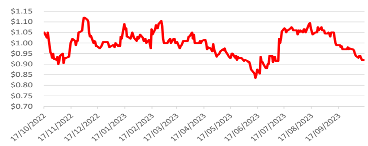
Year end	Revenue	PBTA adj.	NPATA adj.	EPS adj. ($)	P/E (x)	EV/PBTA (x)	Yield (%)
12/22a	241.3	43.5	32.2	0.101	9.1	4.2	7.6
12/23f	236.6	35.6	25.6	0.080	11.5	5.0	6.5
12/24f	266.3	53.7	37.6	0.117	7.9	2.5	8.7
12/25f	286.6	67.5	47.2	0.147	6.2	1.7	9.8

Source: FY22 actual, RaaS estimates FY23f, FY24f and FY25f

Share Details

ASX code	BFG
Share price (16-Oct)	$0.92
Market capitalisation	$295.0M
Shares on issue	320.7M
Cash at 30-Jun-23	$110.3M
Free float	~40%

Share Performance (12 Months)



Upside Case

- Expand avenues to market for commercially available solutions and products
- New products through existing channels
- ECM and ASX activity improvements

Downside Case

- Prolonged ECM downturn
- Regulatory breaches
- Severe ASX correction

Catalysts

- New platform distribution partnerships
- New customers for Clearing and Technology
- Evidence of improved ECM activity

Board of Directors

Alastair Provan	Executive Chair
Graham Cubbin	Independent Director
Brian Wilson	Independent Director
Christine Feldmanis	Non -Executive Director

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Bell Financial Group Ltd

In the 2017 annual report of Bell Financial Group Limited (ASX:BFG), the Managing Director stated "I believe these numbers (FY17 adjusted EPS of $0.082/share) clearly demonstrate that we are not simply a traditional broker relying on day-to-day revenue from secondary market execution, which is what we appear to be regarded as by the market". Fast forward six years and the mix of non-stockbroking earnings has reached 73% of PBT and delivering PBT margins between 50% and 70%, yet the stock price has increased just 15% (All Ords +18%). Earnings in CY23 are forecast to be similar to CY17 despite little contribution from the traditional stockbroking business which has been impacted by subdued market volumes and minimal ECM activity. The combination of continued non-broking earnings growth and a recovery in the traditional broking business is on the cards in CY24.

Investment Case

BFG has built a diversified earnings stream across multiple product streams, many at or approaching scale and therefore operating leverage. Despite this, the group is arguably still seen and being valued as a traditional full-service stockbroker. Consider the following:

- 73% of group PBT adjusted for an FY23 June financial year came from divisions outside of the traditional full-service broking, being Technology and Platforms and Products and Services. This compared to 40% for listed stockbroking peer E&P Group and 0% for Euroz Harleys, highlighting the continued shift in the business composition over recent years.
- The Retail and Institutional divisions combined experience a 65% decline in PBT over the past 12 months on the back of a directionless ASX, 16% decline in ASX trading volumes, and 65% decline in market ECM activity. Such a decline has aided the mix of non-stockbroking business but provides significant earnings leverage to improved equity market conditions when they return.
- Having the internal on-line trading platform (Bell Direct) and developed an execution and settlement offering for financial planners (Desktop Broker), there is an opportunity to add additional products and services to these solutions, and integrate with more platforms, offering a more compelling service and new revenue streams. International trading is likely to be added this calendar year while existing products such as margin lending and portfolio administration have platform attraction.
- BFG has significant cash at bank for regulatory requirements, significant client cash holdings on its balance sheet, and a large and robust margin lending book that derives significant and consistent net interest income. BFG as a result is a net beneficiary of higher interest rates, which has only been evident in the earnings for BFG in its H1 FY23.
- Market downturns and industry consolidation provides further opportunities for Third Party Clearing and Technology and Platforms as players look to cut costs and improve efficiencies.
- BFG is trading on an FY23a EV/PBTA discount to each of our defined financial segments, being small platforms (50% discount), stockbroking (58% discount) and other financial (20% discount). BFG offers the second-highest dividend yield across our selected peer group.

Valuation

Given the different earnings streams and drivers of the BFG business we have selected a Sum of The Parts (SoTP) methodology to value BFG. Our valuation using actual divisional FY23 PBTA is $2.10/share. As a sense check, our DCF valuation is $2.15/share. On our FY25f estimates, our valuation implies a PER of 14x, below the long-term market average.

Divisional Overview

BFG has four divisions which themselves have multiple revenue/earnings streams:

Technology and Platforms

Under the trading entity Third Party Platforms Pty Ltd (TPP), BFG has built a cloud-based end-to-end execution and settlement platform which all its solutions use.

BFG has ~100 IT professionals across an employee base of ~750, highlighting its focus on technology. The group currently capitalises ~$3.4m per annum in software development costs for new products under development.

The Technology & Platforms division derives transactional/brokerage related revenue from:

- **Bell Direct**. Provides clearing and settlement services to ~55k DIY and/or on-line account holders under the Bell Direct brand, competing with the likes of CommSec and E-Trade.

  Revenue is derived from a percentage of brokerage and has increased from $10.5m in FY20 to an annualised ~$17m in FY23 including associated interest income;
- **Bell Direct Advantage**. A similar service to Bell Direct aimed at high -net-worth (HNW) clients with annualised revenue of ~$1.2m;
- **Internal online broking solutions** currently used by Macquarie, HSBC, and Bell Potter on-line. Revenue is derived from a percentage brokerage fee per trade with annualised revenue of ~$4.5m; and
- **Desktop Broker** is aimed at the financial planning industry, servicing ~3,200 planners predominantly from Count Ltd (ASX:CUP) and WT Financial Group (ASX:WTL) which represents ~21% of the market (estimated at 15,595 advisers at June 2023).

  Revenue is based on a percentage of brokerage fee per trade executed on the platform together with subscription fees with revenue annualised at ~$6.0m.

The division derives other income from:

- **Third-Party Clearing**, which is the clearing, settlement, and movement of funds for both Bell Potter Securities (100% from March 2023) and Macquarie (fully transitioned in June 2022). Revenue from this business is based on transaction volumes and has grown from an annualised ~$1.6m in FY21 to ~$9.0m in FY23.

  This business is now a genuine competitor to FinClear given the validation by Macquarie in selecting and onboarding the solution; and
- **Desktop Broker subscription fees** from the 3,200 financial planners using the product.

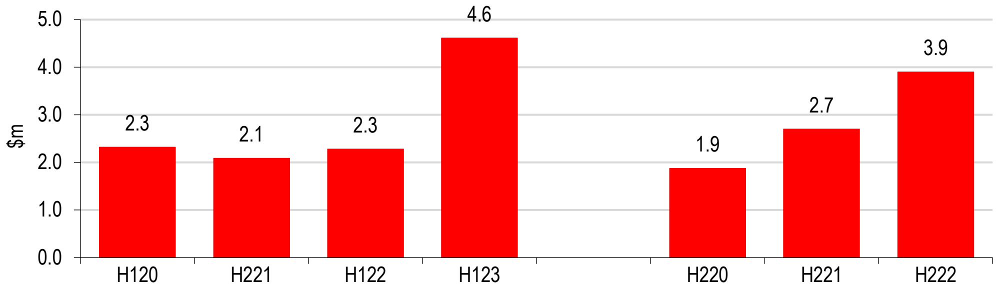
Intercompany transactions relating to clearing fees charged to Bell Potter Securities by TPP and product fee income received by Bell Potter Capital regarding the Bell Financial Trust is the difference between statutory revenue and that reported in result presentations.

NPAT from this division has been steadily increasing over the past four years despite challenging market conditions, driven by growth in Third Party Clearing and Bell Direct.

<u>Most importantly, PBT margins in this division reached 53% in FY23, up from 27.5% in FY22 on the back of operating leverage from additional revenue</u>.

Research as a Service

Exhibit 1: Technology & Platforms NPAT history by half year



Source: Company presentations

Products and Services

The Products and Services division is made up of two distinct businesses:

- **Portfolio Administration Service (PAS) and Super Administration Services**. Like many in the financial services space, BFG derives revenue from the administration of Funds and/or Portfolios Under Advice or Administration (FUA/PAS). As at August 2023, BFG had $72.6b in FUA ($33.9b on-line and $38.7b in Retail) and $4.7b in PAS super, both at historic highs despite recent market weakness.

  Growing FUA in the form of a recurring fee on the face-value of a portfolio will be a key focus for the group going forward, with just ~12% of Bell Potter Retail clients on this arrangement currently compared to ~62% for the likes of E&P Financial (ASX:EP1). We expect this transition to take a number of years but estimate every $1b moved from FUA to PAS equates to $2.5m in revenue, all else equal.

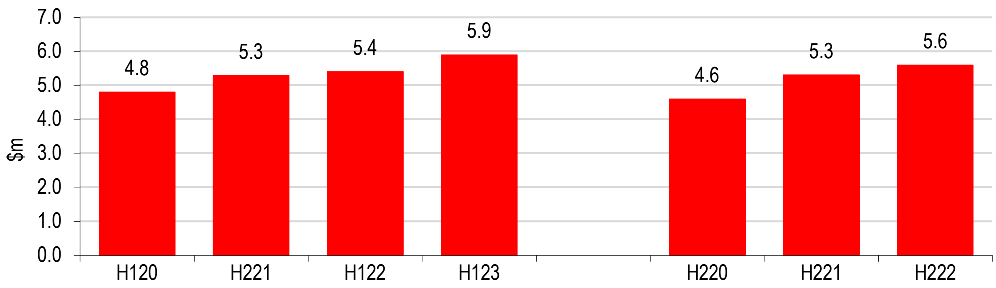
- **Portfolio lending and client funds (margin lending)**. Essentially the net revenue (interest charge less cost of interest and overheads) from the margin lending book. BFG offers standard margin loans (credit provided for a financial product and secured by marketable securities with full recourse) and is the only non-bank margin lender in Australia. Sitting alongside a large equities business with a technology focus provides a risk management overlay competitors arguably don't have. The margin loan book has steadily increased over recent years from $514m in June 2020 to $568m in June 2023 (+10%) despite market volatility. This earnings stream is disclosed in presentations under Products and Services but also forms the majority of group interest income and finance costs in the statutory results. Around 30% of the loan book currently come from clients external to BFG.

  The interest charged for this service historically looks to have ranged between 5%-8%, well below competing offers, and interest costs (for the Bell Financial Trust and top-up ANZ facility which fund the business) between 0% and 4% depending on the prevailing interest rate environment and mix. This business has never had a market-related bad debt and should be viewed as a niche-lending business but core to BFG, with opportunities to continue growing this product through new and existing channels.

NPAT from this division has steadily increased over the past four years despite the challenging market conditions and higher interest rate environment over the past 18 months on the back of increasing FUA/loan book and consistent fee/net interest margin respectively.

PBT margins in this division have increased from 63% to 73% in the 12 months to June 2023 on the back of operating leverage and higher interest rates.

Exhibit 2: Products & Services NPAT history by half year



Source: Company presentations

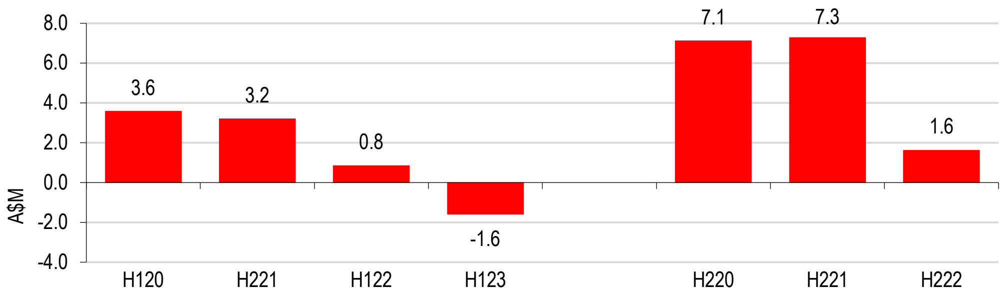
Retail

The Retail division forms part of the traditional full-service stockbroking business within BFG along with institutional and incorporating research coverage, deriving revenue from three key streams:

- **Brokerage** on, predominantly, equities but also other products such as options, futures, and foreign exchange (FX) from retail clients, which was the foundation of Bell Potter Securities before entering equities in 1989. For every dollar written in brokerage we estimate 40%-45% is allocated to the advisor and 55%-60% remains with BFG to pay for the running of the business (research, office space, compliance etc) and achieve a return;
- **Share of institutional fee income from ECM** deals which is paid to retail advisors for placing stock with their clients. ECM deals attract higher fees as a percentage of value relative to brokerage; and
- **Interest income** earned from the cash at bank and on some client accounts.

The brokerage and fee income side of the business is cyclical in nature, having been very profitable during 2020 and 2021 but experiencing a sharp downturn over the past 18 months on the back of challenging equity market conditions which has included a ~30% decline in equity volumes and limited ECM activity.

Exhibit 3: Retail NPAT history by half year



Source: Company presentations

Institutional

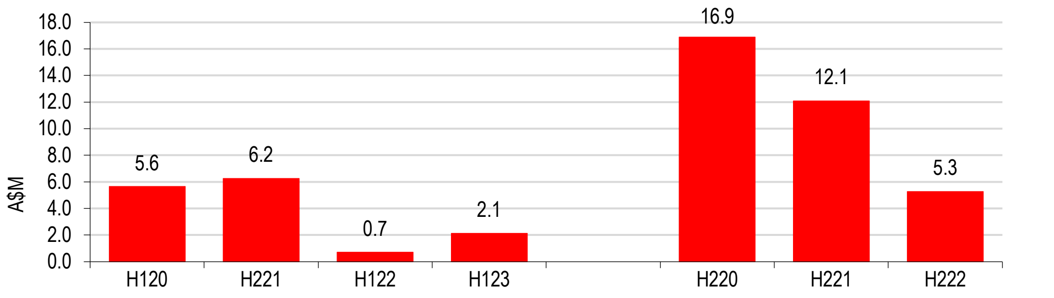
The Institutional division forms part of the traditional full-service stockbroking business within BFG along with Retail and incorporating research coverage, deriving revenue from two key streams.

- **Brokerage** on predominantly equities to institutional clients. Institutional brokerage rates tend to be much lower than Retail (~0.2% vs 0.7%) but average trade values are higher. Brokerage has ranged between 11% and 27% of divisional revenue over the past seven halves; and
- **Fee income from ECM deals** both from IPOs, secondary-market placements, and corporate advisory. BFG is particularly strong in the mid-cap mining and biotechnology space which tend to consistently require equity capital for exploration/mine development and clinical trials respectively. Agriculture, on-line retail, and technology have also been recent strengths. We estimate average deal fees of between 3%-4% and an ECM revenue split of 67%/33% between Institutional and Retail respectively (the average over the past seven halves).

Both the IPO and secondary markets have all but been in hibernation over the past 18 months as markets digest higher interest rates both in terms of the implications for equity valuations and the impact on company earnings, not to mention generally poor performance post-IPO/placement across the industry.

BFG has not escaped the lack of activity with ECM revenue and NPAT declining from a peak of $50m and $16.9m respectively in H2 FY20 to just $17.7m and $2.1m in H1 FY23.

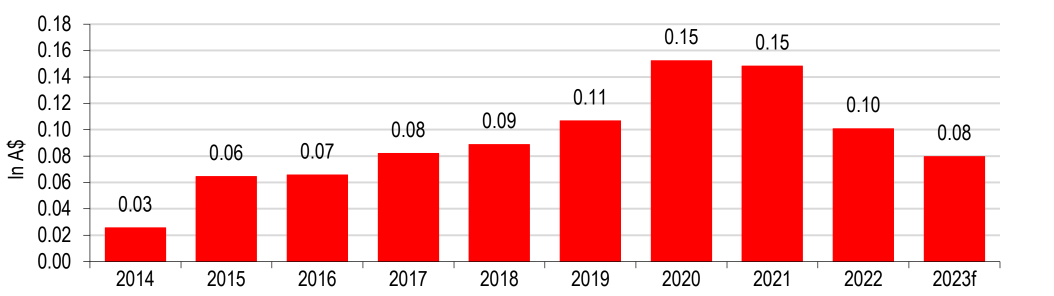
Exhibit 4: Institutional NPAT history by half year



Source: Company presentations

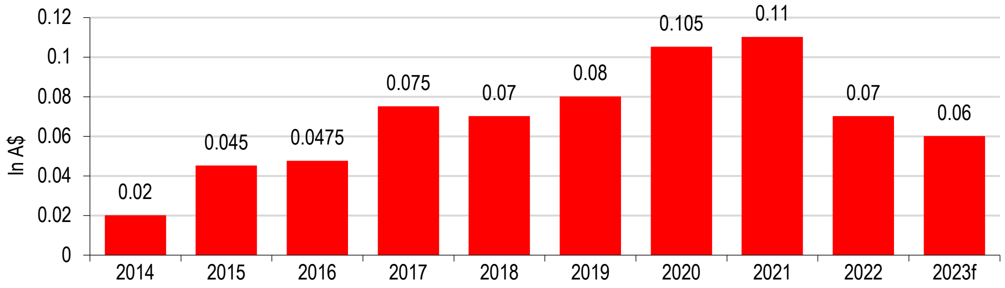
While the current divisional breakdowns only go back to CY20, over the past 10 years through multiple cycles BFG has delivered CAGR growth of 5% in EPS and 7% in dividends. The average dividend paid between CY15 and CY23 is $0.074/share, which equates to a yield of 7.5% fully franked currently. It could be argued FY23 looks at or near the bottom of the cycle for the Retail and Institutional businesses.

Exhibit 5: BFG EPS history – CY14-CY23f



Source: Company announcements

Exhibit 6: BFG DPS history – CY14-CY23f



Source: Company announcements

Key Industry Drivers

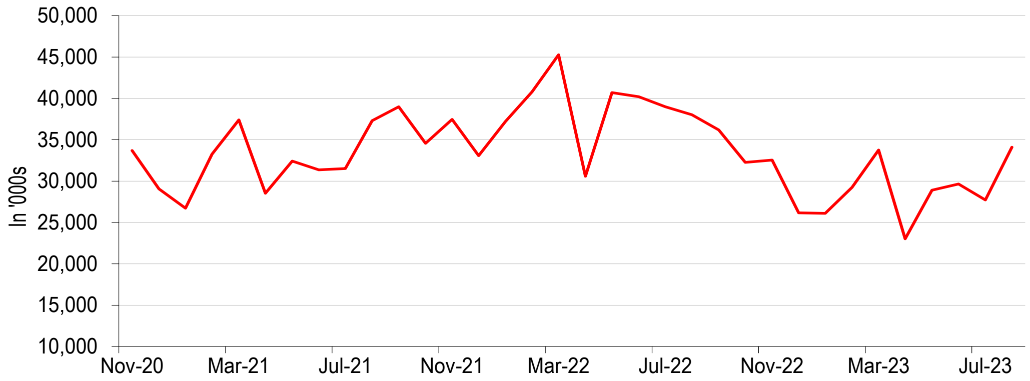
ASX turnover and performance

ASX turnover is a function of both the number of trades and the value of those trades which, combined, equals total market turnover and is a key driver for transaction volumes and related brokerage across the Retail, Institutional, and Technology and Platforms divisions of BFG.

There are a range of factors that influence confidence in equity markets, and if this analyst knew them all he wouldn't be working today, but key confidence drivers include the direction of corporate profits, the level of interest rates and, in particular, 10-year bond yields (which impact relative equity valuations), a successful and active IPO and/or placement market, and the relative attractiveness of alternate investment classes.

Market turnover, as measured by the total number of equity trades, turned negative relative to the PCP in September 2022 and has remained in decline ever since, down as much as 30% through mid-2023 and 16% in the most recent (September 2023) quarter as the chart below shows.

Exhibit 7: Number of ASX secondary market equity trades

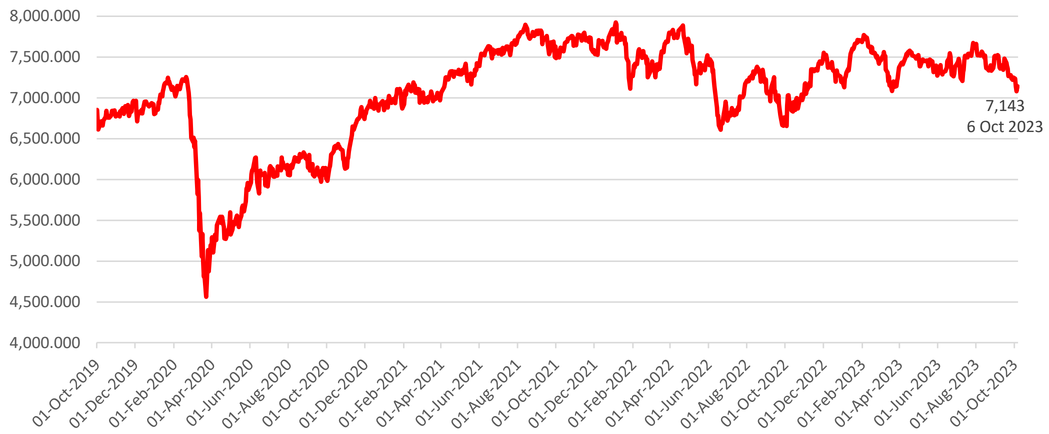


Source: ASX

Market performance influences the total FUA and PAS which most platform players derive a fixed fee for, so a higher market usually delivers higher fees while a falling market lower fees.

From a performance perspective, the ASX as measured by movements in the All Ordinaries has been directionless for the past 30 months, trading in a range +/-7% around of the current index level (7,200).

Exhibit 8: All Ordinaries performance



Source: Refinitiv, RaaS analysis

Initial and secondary capital raisings

Most stockbroking businesses are reliant on ECM activity for profitability as ECM fees are materially higher than vanilla brokerage fees, particularly in Australia.

In the small-mid cap space that BFG predominantly plays, ECM fees can range between 3% and 6%. Secondary-market turnover in house-ECM stocks can also boost the vanilla brokerage business post listing or placement while key management and associates can also become clients of the wider organisation.

Key drivers of a willingness to IPO and/or raise secondary capital include the prevailing market multiples (price expectations), M&A activity, general working capital requirements, and founder sell-down intentions.

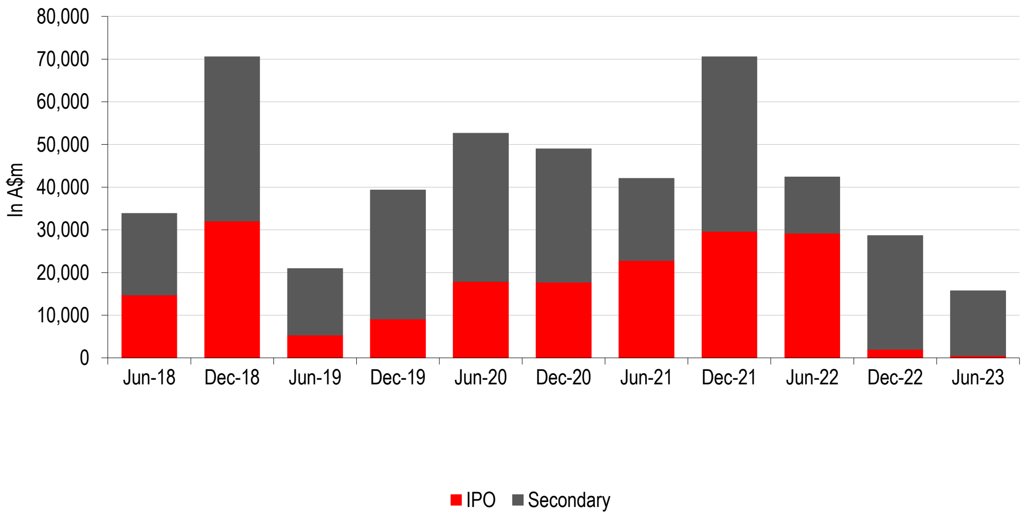
The performance of IPOs and placements post-listing can also impact the appetite of investors to participate in future offerings. According to IPOwatch.com.au:

- There were 79 IPO's in CY22;
- Only 19 (25%) of the 79 are above the issue price currently;
- The remaining 60 were underwater by an average of 57%; and
- In CY21 the numbers are even worse, with only 23 of 154 IPO's above water (15%) relative to the issue price.

BFG was not immune to this trend, conducting ~75 IPOs and secondary market transactions through CY22 with just 11 (15%) of the issues above water relative to the listing/placement price currently.

More realistic/attractive pricing and quality deals will be a key to turning investor interest around, and we are seeing some significantly discounted raises in the current market that may entice increased participation and confidence and result in positive returns.

Exhibit 9: Initial and secondary ECM activity on the ASX



Source: ASX

Superannuation/Portfolios Under Advice/Administration

Platforms (and increasingly service providers such as stockbrokers) typically charge a fixed fee on the face value of Funds or Portfolios Under Administration (FUA/PAS) that tends to range from 0.25%-0.50%. In return these platforms provide a range of services around the administration and reporting of these portfolios. The face value of total funds year-to-year is a function of:

- **Market performance**, with higher balances attracting higher fees and vice versa; and
- **Net fund flows,** with fund flows impacted by market share, asset allocation decisions and regulations such as mandatory superannuation contributions which support inflows over the medium-term.

Similarly, Funds Under Management (FUM) operators typically charges a management fee on face value of the managed funds, and often a performance fee if certain return hurdles are met. Fees vary significantly depending on the level of active management and the asset class involved, with equity management fees typically ranging between 0.5% and 1.5% and performance fees up to 20% of the outperformance relative to the chosen benchmark.

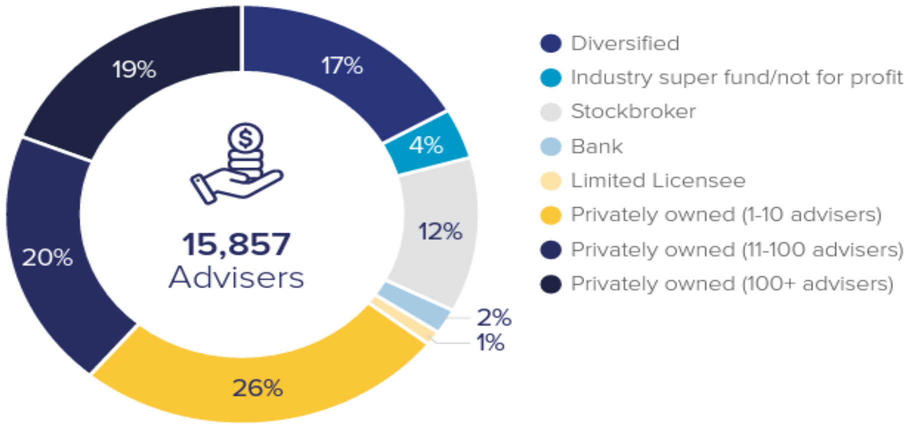
Hub24 (ASX:HUB) provides a good summary on the Australian platform market in its 2023 Analyst & Investor Pack, with some key observations including:

- The Australian platform market was worth $982b at March 2023;
- Superannuation represents 67% of the market and investments the balance (33%);
- Specialist platforms (such as Hub24 and Praemium) are taking share from institutions such as large super funds and banks as these institutions reevaluate their in-house technology platforms as part of their overall strategy. Specialists now represent ~16% of the market and have grown FUA at a CAGR of ~40% over the past 10 years; and
- 65% of the Australian adviser market are part of privately owned and self-licensed businesses.

For BFG, the clients of specialist platform providers are a potential end market for some of its products and services, particularly if they are seamlessly integrated.

The PAS services offered by BFG for its clients centre around registry management and company communications relating to sponsored holdings.

Exhibit 10: Composition of Australian advice industry



Source: Hub24 Investor Pack - 2023

The level of interest rates

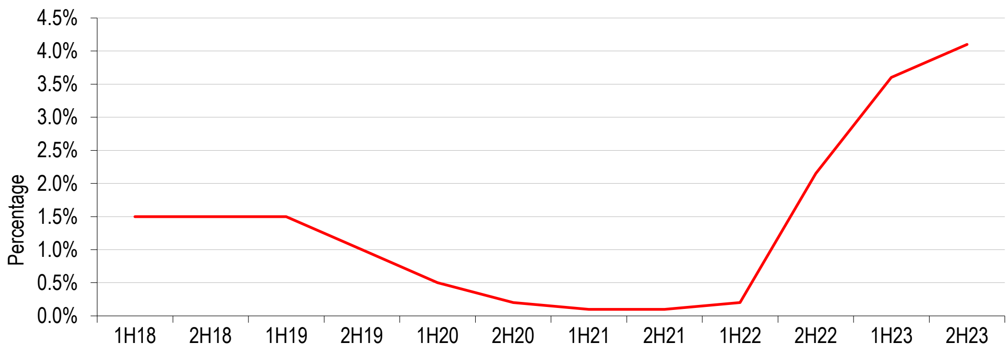
Most players in the financial services space have cash at bank for regulatory requirements which earns interest income.

There are also a range of products offered that charge a fee or interest rate for the service and fund such a service with borrowing of some description (such as BFG's margin lending).

Interest rates, as measured by the RBA cash rate, were <1.0% between H1 FY20 and H1 FY22 before increasing rapidly to the current 4.1%.

BFG is a net beneficiary of higher interest rates (excluding their impact on equity markets) relative to peers from interest earned on cash balances, some client funds, and net fees from margin lending.

Exhibit 11: RBA cash rate



Source: RBA

Competitive landscape

The competitive landscape is multi-faceted, with both sector and investment cycle implications.

There are 32 traditional full-service brokers licensed to trade on the ASX, according to the ASX. **New entrants** tend to be associated with offshore banks (such as Jefferies and Jarden) or new players with significant financial backing (such as Barrenjoey which counts Magellan as a 36% shareholder) given the capital requirements and number of heads required to be a full-service player in the sector.

Departures tend to be from offshore disruption (the Credit Suisse/UBS merger) and an inability to compete with the large players (CCZ Equities recently closed shop after 24 years in business).

Alternate sources of funding. The existence and growth of private equity, private capital, and private wealth means that companies do not necessarily need to list to obtain equity funding, which can impact ECM opportunities for full-service brokers.

Retail/private wealth advisers tend to operate as a business within a business, and as a result the support services and products offered to help run their business are a key consideration for who they work for. Adviser commissions can also be a consideration.

In this light, the closest traditional full-service stockbroking peers to BFG include Euroz Hartleys, Shaw & Partners, Wilsons, Morgans, and Ords.

Investment cycle. In tough markets the 'bulge bracket' firms tend to come down the ECM chain to the mid-small cap space, which can place pressure on firms such as BFG and Euroz Hartleys.

As detailed in the previous FUA/PAS section, there are a number of specialist platform providers such as Hub24, Insignia, Praemium, and Netwealth building platforms to replace the systems provided by large institutions. BFG specialises in trading platforms but has ambitions to commercialise other products and services externally. This could see players such as Iress (Xplan) become competitors.

Margin lending. BFG is the only non-bank margin lender in Australia, providing a point of differentiation relative to large banks. Of the banks, Bendigo and Adelaide Bank (ASX:BEN) has a margin loan book of ~$1.9b in its Leveraged Equities arm and has identified margin lending as a high-ROE focus, while nabtrade, Westpac, CommSec, BT, and St George all have margin lending products.

In the **FUM and FUA** space there are a plethora of options for investors across the retail, wholesale and LIC space. Distribution, performance, and talent typically drives long-term success.

In the **clearing and settlement space, the privately-held FinClear** is the market leader based on the number of brokers it clears for. FinClear is 16% owned by Magellan Financial Group (ASX:MFG) and consists of the FinClear (which incorporates Pershing Securities), FCX and Transact1 brands.

Key Compliance/Regulatory Requirements

Highlighting the regulatory environment and responsibilities that BFG operates under the Bell Potter Securities Ltd, Bell Potter Capital Ltd and Third Party Platform Pty Ltd entities was the AUSTRAC notices received concerning compliance with the Anti-Money Laundering and Counter Terrorism Financing Act in February 2022. The notices required BFG to appoint an external auditor and conduct a compliance audit around a number of sections in the AML/CTF Act, with the report delivered in October 2022 and findings released June 2023.

Ultimately AUSTRAC decided it would not be taking any further regulatory action, with BFG both proving internal compliance processes and enhancing them through the audit period.

Such an audit can be costly, divert management resources and result in significant fines and reputational damage if found in breach.

BFG has an experienced team of ~20 legal, compliance and internal audit staff and utilises a number of internal systems including Fusion to enhance 'know your client' requirements and monitor compliance.

Having three separate entities within BFG allows individual businesses to be quarantined should regulatory issues arise and not be caught under a single umbrella.

Key regulators that BFG must adhere and report to include:

The ASX

BFG under their three trading entities is:

- (1) of (24) ASX trading participants (BP Securities);
- (1) of (17) ASX Futures trading participants (BP Securities);
- (1) of (30) cash clearing participants (TPP);
- (1) of (25) options clearing participants (TPP);
- (1) of (7) third party clearing participants (TPP);
- (1) of (54) ASX settlement participants (TPP); and
- (2) of (49) ASX trading participants (BP Securities and TPP).

With each of these roles comes a range of rules, regulations and reporting requirements that have to be adhered to.

ASIC

ASIC regulates the conduct of Australian companies, financial markets, financial services organisations and professionals who deal in and advise on investments, superannuation, insurance, deposit taking and credit. For BFG this touches most divisions within the group. Key powers of ASIC include:

- **Register and license** including the Issuing of Australia Financial Services Licences (ASFL's);
- **Regulate** to ensure financial market integrity; and
- **Enforcement** which can include civil penalties, the banning of individuals and prosecute offenders.

AUSTRAC

AUSTRAC is a financial intelligence agency responsible for monitoring financial transactions to identify money laundering, organised crime, tax evasion, welfare fraud and terrorism financing. For financial service providers AUSTRAC provides obligations around:

- **AML/CTF programs**, with organisations required to show how they address money laundering and terrorism financing risks, and develop and document policies, procedures and controls to identify, mitigate and manage the risks;
- **Customer identification and verification** or know your customer requires procedures to be documented including due diligence and transaction monitoring;
- **Reporting** certain transactions and suspicious matters and compliance reports to AUSTRAC;
- **Record keeping** including the capture, storing and management of full and accurate records; and
- **Preventing financial crime** using a risk-based approach.

Offshore regulators

BFG operates offices in New York, the UK, Hong Kong and Kuala Lumpur. Each of these offices is separately licenced under the relevant authority.

Key BFG Financials

Revenue

Technology & Platforms

- **Brokerage-related transactions**. On the back of lower equity transaction volumes, we forecast weaker H2 FY23 revenue for Desktop Broker, White Label and Bell Direct. Cycling weak transaction volumes through CY23 we forecast a modest recovery over CY24 in-line with our assumptions for improved market volumes.

  The addition of an international trading module has the potential to add revenue across Bell Direct, White Label and Desktop Broker.

- **Third Party Clearing**. The step-change benefits from the addition of the Macquarie business have been seen over the past 12 months, but there remain some benefits from the transitioning of the Bell Potter business, growth from the Macquarie business and new clients into FY24.

  With Macquarie now a reference customer for Third Party Clearing, we expect TPP to be a much more viable alternative to FinClear in the clearing and execution space medium-term and have assumed modest client wins beginning H1 FY24.

Products & Services

- **PAS and Super**. FUA ended June 2023 at $4.6b and reached $4.7b in August 2023, well above the prior year, so assuming a stable fee we expect PAS revenue to be above H1 FY23 and H2 FY22.

  A medium-term focus on signing more stockbroking clients to the PAS service at a fixed fee is likely to increase this revenue stream medium-term, remembering only $4.0b of the ~$39b in sponsored holdings at Bell Potter Securities currently opt for the PAS service.

- **Margin lending.** The margin loan book ended June 2023 at or near recent highs and as a result H2 FY23 is forecast to be modestly above the PCP.

  Medium-term there are opportunities to growth the loan book via platform integrations, untapped markets such as SMSF’s, and the introduction of mobile applications for clients.

Retail

- **Brokerage**. Equity market volumes in the September quarter remain negative (-20%) and point to continued challenging conditions for retail brokerage over H2 FY23.

  We have assumed a 7%-8% volume recovery in FY24 off the low FY23 base, then 5% growth in FY25.

- **Fee income.** In-line with our Institutional assumptions below a lack of ECM activity is assumed to continue to impact Retail fee income in H2 FY23, and into H1 FY24 before some recovery in H2 FY24.

Institutional

- **Brokerage**. Peaking in H2 FY20, Institutional brokerage has been in decline since and RaaS forecast modest declines to continue into H1 FY24.
- **Fee income** is dependent on ECM activity and has shown some return to life in the September 2023 quarter with $14b in deals the highest since September 2022 according to the ASX. Most deals have been in the larger cap space including a $1.356b equity raise for Orora (ASX:ORA) and $750m raise for Star Entertainment (ASX:SGR).

  We have H2 FY23 fee income for BFG 38% below H2 FY22, with consolidation forecast during FY24.

Operating costs

Key operating costs for the BFG business are summarised below:

- **Employees** represented 70% of operating costs in H1 FY23, dominated by the Retail and Institutional divisions. Divisionally we assume a base cost to run Retail/Institutional with commissions kicking in as revenue increases from base levels.

  For Technology and Platforms and Products and Services we see less requirement to add staff and/or commissions as revenue increases, leading to significant operating leverage from already strong margin levels as revenue grows.

- **Most other costs are relatively fixed in nature** including occupancy, systems and communications, market information, ASX and clearing, and other.
- **Finance costs have increased in-line with interest rates** and are forecast to remain elevated around $7.0m per half, and mainly relate to the funding costs associated with the margin lending book, which is offset by higher product fees.

A full financial summary by division for BFG to FY25 is presented in the table below.

Exhibit 12: BFG P&L summary CY21-CY25f

Year-ended December 31	2021	2022	2023f	2024f	2025f
Revenue	**291.8**	**239.7**	**234.3**	**264.3**	**284.6**
Technology and Platforms	25.1	23.9	22.3	25.0	26.7
Products and Services	23.4	22.2	23.4	24.9	26.3
Retail	142.9	113.5	100.6	116.1	128.3
Institutional	77.7	46.8	40.7	49.6	52.8
Interest income	22.7	33.3	47.3	48.7	50.5
Operating costs	217.4	189.9	193.4	204.7	211.1
EBITDA	**75.4**	**51.4**	**43.3**	**61.6**	**75.6**
D&A	11.6	10.7	10.4	10.6	10.8
PBT	**63.8**	**40.8**	**32.9**	**51.0**	**64.8**
Technology and Platforms	6.8	8.6	13.4	15.8	17.3
Products and Services	15.0	15.2	17.5	19.6	22.3
Retail	14.9	3.4	(5.6)	3.4	10.7
Institutional	26.1	8.4	5.4	12.2	14.5
Tax expense	19.0	11.3	10.0	16.1	20.2
NPAT	44.8	29.5	22.9	34.9	44.5
NPATA	**47.5**	**32.2**	**25.6**	**37.6**	**47.2**
Adjustments	1.1	3.8	0.0	0.0	0.0
Reported NPAT	**45.9**	**33.2**	**22.9**	**34.9**	**44.5**

Source: Company data for actuals, RaaS estimates for FY23f-FY25f

Other Financial Commentary

Cash flow

Acquisition and sale of investments will occur year-to-year on the back of options exercised and related share sales from ECM deals. Given visibility and timing we have no forecast acquisitions or sales in our estimates.

Balance sheet

Cash at bank was $110m as of June 2023. Most of this cash is required for regulatory purposes for the likes of Third Party Clearing and ASX regulations.

Client cash is not included as cash at bank for EV calculations as it relates to client cash deposits for accounts with Bell Direct. That said, BFG does earn interest on these funds (~$170m at June 2023) when interest rates are positive, which is recorded in the Technology & Platforms division under Bell Direct.

Goodwill of $130m relates to previous acquisitions.

Intangibles of ~$15m relate to software development, with ~$3.4m per annum currently being capitalised for technology development.

Loans and advances relate to the margin lending book, with the offset or funding for this the Bell Financial Trust, which is a Single Purpose Managed Investment Scheme offering RBA+ interest rates with Perpetual as the responsible entity. The ANZ top-up facility is used to supplement the Bell Financial Trust as the size of the margin lending books fluctuates.

Listed Peer Analysis

One of the key themes in this report is that BFG (and indeed many of itslisted peers) are not just traditional stockbrokers, and as such should be viewed and valued in-line with a more diversified financial services group. As such, we have spent considerable time looking at potential peers which we review and discuss below.

Euroz Hartleys (ASX:EZL) EV $76m FY23 PBT $14.7m

EZL is now back to a traditional full-service stockbroking business with a particularly strong position in Western Australia. EZL operates under three key divisions:

- **Private Wealth**. Similar to the Retail division of BFG, Private Wealth has 61 advisors and derives revenue from equity brokerage, a share of ECM activity, and fee income on its ~$3.4bn FUM/PAS;
- **Wholesale**. Similar to the Institutional division of BFG, Wholesale derives revenue from ECM raisings, corporate advisory, and transactional brokerage from institutional clients; and
- **Funds Management**. EZL sold its Westoz and Ozgrowth Funds Management to Wilson Funds Management in April 2022. EZL now receives management fees from a newly created Westoz Resources Fund managed by WFM, which is in its infancy.

FY23 result summary. Continuing group revenue declined 11% and continuing NPAT 50% on the back of challenging equity market conditions, particularly in Private Wealth, with transactional brokerage declining 31% to $25m (26% of group revenue). Wealth Management fees declined just 1.3% to $18.1m (19% of group revenue) as higher FUM offset flat equity market performance.

Underwriting and placement fees declined 11% to $38.7m (40% of group revenue and predominantly wholesale in nature) which was a solid result considering the state of the ECM markets over the period and supported by WA-based mining activity. Corporate advisory revenue doubled over the period.

FY24 outlook comments. No outlook comments, but new premises in Perth and investment in platforms and systems is expected to attract advisors, and in turn drive growth in both FUM and brokerage.

Other metrics. FUM $3.4b, net cash $74m.

Exhibit 13: EZL FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Private Wealth	48.5	1.5	0.03	8.4	(0.82)
Wholesale	44.8	10.0	0.22	11.9	(0.16)
Funds Management	0.3	(0.1)	n.m.	11.4	n.m.
Interest/other	2.3	3.2	n.m.	2.0	0.17
Group Total	**95.9**	**14.7**	**0.15**	**33.8**	**(0.59)**

Source: Company financials and& RaaS estimates

E&P Financial (ASX:EP1) EV $41m FY23 PBT $4.1m

EP1 encompasses a traditional stockbroking business with a full-service wealth management offering and a specialist funds management business. The group operates under three key divisions:

- **E&P Wealth**. Full-service solutions for private clients across wealth management, stockbroking, PAS and SMSF administration, similar to a mix of retail and Products and Services for BFG. Revenue is primarily generated from asset-based advisory fees, securities brokerage, and ECM fees, with 62% of clients now on a FUA fee structure.
- **E&P Capital**. Stockbroking and investment advisory services to institutional clients and corporations including ECM, debt, and M&A, similar to the Institutional business of BFG. Revenue is generated through equity brokerage, corporate advisory, and ECM fees.
- **E&P Funds**. A specialist global fund manager across equities, residential property, private equity, and ESG investments with $2.6b under management. Revenue is generated from management fees and performance fees.

FY23 result summary. Group revenue declined 11%, underlying EBITDA -31%, and underlying PBT -56% on the back of challenging equity market conditions. Divisionally, E&P Wealth revenue was flat, but EBITDA increased 21% on the back of cost control initiatives and a fee review adjusting all clients to an 'industry-standard fee'.

E&P Capital revenue declined 28% and underlying EBITDA 65% on the back of lower transaction and trading volumes across the market. Additional costs were also incurred in building out the corporate advisory platform and expanding research coverage. E&P Funds revenue was down 17% and underlying EBITDA -21% on the back of exiting its Real Assets business in FY22.

FY24 outlook comments. No outlook comments were provided.

Other metrics. FUA $23.4b, FUM $2.6b, net cash $53m.

Exhibit 14: EP1 FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Wealth	88.1	8.9	0.10	7.1	0.27
Capital	45.8	4.0	0.09	13.3	(0.70)
Funds	36.9	9.1	0.25	13.2	(0.31)
Corporate	0.0	(17.9)	n.m.	(24.0)	(0.26)
Group total	**170.7**	**4.1**	**0.02**	**9.5**	**(0.56)**

Source: Company financials and RaaS estimates

Sequoia Financial (ASX:SEQ)   EV $27m   FY23 PBT $5.5m

SEQ is a diverse financial services player operating under four key divisions:

- **Direct Investments**. Provides a range of media services, research, and general advice to self-directed investors, and also provides news, research and data on managed funds, direct shares, and bonds;
- **Equity Markets** provides services to licensed advisers, self-directed investors, and super funds. Morrison Securities was a key contributor to this division but was sold effective August 2023;
- **Professional Services**. Provides services to intermediaries including licensed advisers, accountants, and lawyers. Services includes SMSF administration, general insurance broking, legal document establishment services, and company secretarial services; and
- **Licensee Services**. Provides licensee services to financial planners, wealth managers, equity advisers together with a corporate advisory unit. Services include compliance, marketing, research, and technical support.

FY23 result summary. Underlying revenue declined 11% and adjusted PBT 14% on the back of a challenging year in financial markets. The impact of financial advice claims dating back several years in the Licensee Services division ($2.0m), SSI timing and mark-to-market portfolio losses reduced reported PBT to ~$2.0m.

80% of Morrison Securities (within Equity Markets) was sold to New Quantum Holdings for $40.5m effective August 2023, reducing revenue by ~$30m and PBT by ~$1.5m.

FY24 outlook comments. Management expects a return to earnings growth across all divisions in FY24. A combination of Q4 FY23 momentum and likely acquisitions across the general insurance brokerage, financial planning, and SMSF administration space with a ~$40m war chest. Castle Corporate and Castle Legal were acquired in July 2023.

Longer-term management have a target of achieving a 15% ROE on management's internal enterprise valuation for each division, which if achieved would imply PBT of ~$15m.

Other metrics. 367 advisers, $40m net cash.

Exhibit 15: SEQ FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Direct	3.0	0.5	0.17	1.0	(0.48)
Equity Markets	41.7	3.7	0.09	4.2	(0.11)
Professional Services	8.5	2.4	0.28	2.4	(0.01)
Licensee Services	77.9	5.6	0.07	5.5	0.01
Corporate/D&A	0.0	(6.7)	n.m.	(6.7)	0.00
Group total	**131.1**	**5.5**	**0.04**	**6.4**	**(0.14)**

Source: Company financials and RaaS estimates

Centrepoint Alliance (ASX:CAF) EV $32m FY23 PBT $6.6m

CAF operates under three key divisions but predominantly provides services to financial planners to help run their businesses effectively:

- **Licensee and Advice Services**. Provides services and solutions for advisors to operate in financial planning including operating under its AFSL. Other services include technology (Xplan expertise including internally developed add-ons via Enzumo), performance tracking (Salesforce), compliance including cyber security, training, and access to investment solutions.
- **Funds Management and Funds Administration**. Derives a commission for referring advisors and their clients to funds management products; and
- **Consulting**.

FY23 result summary. Revenue increased 5% and PBT 160% on the back of a full-year contribution from the ClearView Advice acquisition and lower employee expenses.

The group is now ranked number three in the market by advisers operating under the group's licences and achieved net additions in advisor numbers in a market which is in decline due to increased regulatory requirements for participants.

FY24 outlook comments. Management is expecting flat revenue and EBITDA in the range of $7.5m-$8.0m (FY23 $7.6m). A new Lending as a Service offering was introduced in October 2022 with 30 planners currently trialing the product.

Other metrics. 707 advisers, $5.5b FUA, $300m FUM, $16m net cash.

Exhibit 16: CAF FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
License and Advice Services	30.4	10.6	0.35	6.2	0.71
Funds Mgt and Funds Admin	4.0	3.3	0.82	3.1	0.07
Consulting	0.2	(0.1)	n.m.	0.0	n.m.
Corporate	0.1	(7.2)	n.m.	(6.7)	0.07
Group total	**34.8**	**6.6**	**0.19**	**2.6**	**1.57**

Source: Company financials and RaaS estimates

MA Financial (ASX:MAF) EV $872m FY23f PBT $75.2m

MAF is a global alternative asset manager specialising in private credit, hospitality, real estate, and unique operating assets such as marinas. MAF operates under three key divisions:

- **Asset Management**. Manages $8.6b across hospitality ($1.8b), real estate ($2.6b), credit ($3.3b), private equity, and venture capital on behalf of retail, wholesale, and institutional investors. Represented 79% of group EBITDA before corporate allocations in H1 FY23.
- **Lending and Technology**. Offers residential mortgage lending and speciality finance in the legal funding space; and
- **Corporate Advisory and Equities**. Provides strategic and financial advice and specialist securities research under the MA Moelis brand.

H1 FY23 result summary. Group underlying EBITDA declined 8% (PBT -13%), with all divisions lower. Asset Management (79% of EBITDA) declined 8%, with higher base management fee revenue offset by lower performance fees. The division expanded in the half via the acquisition of NY-based Blue Elephant and the launch of the MA Marina Fund.

Lending and Technology EBITDA declined 15% despite a 12% increase in underlying revenue due to investment in the Technology and Lending platform. CA&E revenue declined 27% and EBITDA 27% on lower deal activity.

H2 FY23 outlook comments. No group outlook comments were provided but divisionally growth in net inflows should underpin additional growth in Asset Management in H2 FY23 and beyond. Slowing lending growth and peak losses in the newly established MA Money is expected for Lending & Technology while conditions in CA&E are expected to remain challenging.

Exhibit 17: MAF H1 23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Asset Management	84.8	42.9	0.51	46.7	(0.08)
Lending and Technology	20.8	6.8	0.33	8.0	(0.15)
CA&E	22.2	4.8	0.22	6.6	(0.27)
Corporate/D&A	0.5	(15.4)	n.m.	(17.0)	(0.09)
Interest expense	0.0	(4.3)	n.m.	(4.2)	(0.02)
Group total	**128.3**	**34.8**	**1.1**	**40.1**	**(0.13)**

Source: Company financials and RaaS estimates

Iress (ASX:IRE) EV $1,400m FY23f PBT $73.5m

IRE is a financial services technology company that designs and develops software for trading and market data (ViewPoint, Pro), financial advice (Xplan, CommPay), investment management, mortgages, superannuation, life and pensions, and data intelligence. Iress is an international business operating under five key divisions:

- **APAC**. Consists of the Trading & Market Data business (market data, trading, compliance, order management, and portfolio systems), the financial advice business which provides financial planning systems and related tools, and the Superannuation business which provides funds administration software;
- **UK and Europe**. Incorporates the financial markets business which provides information, trading, compliance, order management, portfolio systems, and related tools to cash equity participants and the wealth management industry;
- **South Africa**. Provides trading, compliance, order management, and portfolio systems to financial market participants and financial planning software to wealth management professionals;
- **North America**. Provides information, trading, compliance, order management, and portfolio systems to financial market and wealth management professionals in Canada; and
- **Mortgages**. Operates in the UK to provide mortgage origination software and associated consulting services to banks.

H1 FY23 result summary. Subdued revenue growth of just 2%, underlying EBITDA down 17% to $59.5m, and underlying PBT down 28%. Staff cost pressures contributed to +8% in operating costs. Core Xplan licence revenue was up 4.2% but ancillary modules were down 8.7%. Lower Australian share trading volumes and sector consolidation impacted the APAC Trading and Data business.

FY24 outlook comments. Management expects underlying EBITDA to be broadly flat vs H2 FY23 (implying FY23 EBITDA of ~$120m). Early FY24 guidance is for underlying EBITDA growth of +5%-10%, exiting at a run rate closer to 20%-30%, with a target in FY25 of significant debt reduction and a focus on achieving the Rule of 40 (margin + growth rate = 40).

Exhibit 18: IRE H1 FY23 divisional earnings summary ($A unless otherwise specified)

Division	H1 FY23 Revenue	H1 FY23 PBT	FY23 (%)	FY22 PBT	% CHG (FY23/22)
APAC	184.2	119.8	0.65	124.2	(0.04)
UK and Europe	75.6	43.7	0.58	48.3	(0.10)
Mortgages	17.7	12.4	0.70	11.7	0.05
South Africa	20.9	15.3	0.73	16.8	(0.09)
North America	16.8	6.8	0.41	7.6	(0.11)
Corporate	0.0	(128.3)	n.m.	(128.0)	0.00
D&A and Interest	n.a.	(29.9)	n.m.	(25.2)	0.19
Group total	**315.3**	**39.8**	**0.13**	**55.5**	**(0.28)**

Source: Company financials and RaaS estimates

Praemium (ASX:PPS) EV $240m FY23 PBT $17.9m

PPS provides investment platforms and portfolio administration technology solutions to meet the needs of financial advisors and their clients. PPS controls all key modules of its technology architecture and integrates with other key advice planning software. Key platforms are Praemium SMA and Powerwrap and combined see PPS as a major player in the Specialist Platform Providers (SPP) space.

The business has two divisional units which are:

- **Australia**. Wide-ranging solutions across superannuation and investments to clients including investors, members, employees, and advisors.
- **International**. PPS divested the majority of its International operations in June 2022 to Morningstar Inc. and as such the remnants of this business remain in the division.

FY23 result summary. PPS benefitted from a more simplified business following the sale of its International operations to Morningstar Inc. and the integration of Powerwrap into the Praemium business and technology architecture. Underlying Australian EBITDA increased 23% and growth in FUA was 14% to $44b. The sale of the loss-making International operations saw NPAT and EPS growth of ~300%.

FY24 outlook comments. No specific guidance given.

Exhibit 19: PPS FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT *	FY23 PBT (%)	FY22 PBT	% CHG (23/22)
Australia	76.0	17.9	0.24	11.0	0.63
International	0.0	(0.1)	n.m.	(3.9)	(0.98)
Group total	**76.0**	**17.9**	**0.23**	**7.1**	**1.51**

Source: Company financials & RaaS estimates *Using Underlying EBITDA of $23.4m

Netwealth (ASX:NWL) EV $3,548m FY23 PBT $97m

NWL operates under one reportable segment, Platform Operations Management. NWL is a specialist investment platform provider to financial intermediaries (financial planners and wealth advisers) and their clients to administer and manage investment portfolios. The platform caters for superannuation (Netwealth Super Accelerator) and non-superannuation products (Netwealth Accelerator) with the ability to administer a wide range of investments from a single location.

- **Platform Operations Management**. NWL is the largest SPP in Australia by FUA with $70.3b at June 2023. Platform revenue is split between administration fees from Wrap and Super (47%), a wide range of ancillary fees (36%), transaction fees (11%), and management fees (8%); and
- **Interest income**. NWL has ~$110m in net cash and with interest rates increasing over the past 12 months interest income has also increased.

RaaS
Research as a Service

FY23 result summary. Total revenue increased 22%, EBITDA 18% and NPAT growth 21% despite continued investment in the platforms. FUA increased 26% to $70b.

FY24 outlook comments. While no specific guidance was provided, the Core product relaunch in September 2023 is expected to significantly boost market presence in what NWL define as the 'mass affluent' and 'emerging affluent' sectors. A strong pipeline and high win rate for new business early in Q1 FY24 were also highlighted.

Other metrics. FUM $16b.

Exhibit 20: NWL FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Platforms	207.0	93.8	0.45	80.7	0.16
Interest	3.1	2.7	0.86	(0.1)	n.m.
Other	4.6	0.5	0.11	0.5	0.00
Total group	**214.7**	**97.0**	**0.45**	**81.1**	**0.20**

Source: Company financials and RaaS estimates

Hub24 (ASX:HUB) EV $2,694m FY23 PBT $72.6m

HUB is a specialist provider of integrated platform, technology, and data solutions to the Australian wealth industry. HUB operates under two key divisions:

- **Platforms**. Comprises the HUB24 investment and superannuation platform, the Xplore Wealth investment and superannuation platform, Portfolio Administration and Reporting Services (PARS), and myprosperity, a client portal for accountants and financial advisers acquired in May 2023. HUB24 and Xplore are used by financial professionals to efficiently administer their clients' investments held through a superannuation or investment product under custodial arrangements.
- **Tech Solutions**. Comprises Class, a cloud-based trust accounting, portfolio management, legal documentation, corporate compliance and SMSF administration solution; and HUBconnect, a technology and data services provider to the wealth industry that delivers efficiencies for some of the time-consuming and costly processes in delivering advice via machine learnings and AI.

FY23 result summary. Group operating revenue increased 45%, with Platform revenue +30% and Tech Solutions +133%, aided by the Class acquisition in February 2022. Group underlying EBITDA also increased 45% on the back of growth in FUA (+23%), cost control, and operating leverage from revenue growth.

FY24 outlook comments. The group expects strong growth and increasing profitability moving forward subject to consistent and stable investment markets. Platforms are targeting FUA in the range of $92b-$100b by FY25 against an FY23 FUA of $62.7b.

Exhibit 21: HUB FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT *	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Platform	208.8	71.4	0.34	46.8	0.53
Tech Solutions	67.5	7.7	0.11	6.7	0.16
Corporate	0.0	(6.6)	n.m.	(3.7)	0.78
Group total	**276.3**	**72.6**	**0.26**	**49.8**	**1.46**

Source: Company financials and RaaS estimates; * Adjusted for SBP and project costs

Bell Financial Group (ASX:BFG) EV $185m FY23 PBT $38.8m

Adjusting reported BFG financial metrics to a June financial year and on a PBT basis we summarise FY23 actual divisional performance for comparative purposes to the peer group below.

- **Technology and Platforms and Products and Services** PBT combined increased by 32% to $28.3m representing 73% of group PBT. Individually, Technology and Platforms PBT increased 74% and Products and Services 11%.

  The PBT margins for these divisions are well the above the average for financial services businesses.

- **Retail and Institutional PBT** combined declined 65% to $10.4m, with retail at breakeven despite higher interest income.

Exhibit 22: BFG FY23 divisional earnings summary ($A unless otherwise specified)

Division	FY23 Revenue	FY23 PBT *	FY23 PBT (%)	FY22 PBT	% CHG (FY23/22)
Technology and Platforms	22.6	12.0	0.53	6.9	0.74
Products and Services	22.2	16.3	0.73	14.6	0.11
Retail	106.3	0.0	0.00	11.4	(1.00)
Institutional	51.0	10.4	0.20	18.0	(0.42)
Group total	**202.2**	**38.8**	**0.19**	**50.9**	**(0.24)**

Source: Company financials and RaaS estimates

The following table summarises the key financial metrics of selected peers for FY23 which we use to select the appropriate multiples for a Sum of The Parts (SoTP) valuation.

Exhibit 23: Peer group FY23 financial comparison (in A$m unless otherwise stated)

Company Name	Ticker	Share price (cps)	Mkt. cap.	Net debt (cash) @ Jun-23	Adj. pre AASB16 PBTA	Revenue	Adj. EPS (cps)	Adj. PBTA (x)	PER (x)	Yield (%)
Platforms						**Average**		**23.1**	**31.8**	**2.0**
						AVG (Small)		**13.1**	**21.4**	**2.7**
Netwealth	NWL	15.00	3,657	(109.4)	97.6	207	0.29	37.5	51.9	1.6
Hub24	HUB	33.58	2,737	(42.8)	94.8	280	1.04	28.9	32.3	1.0
Iress	IRE	5.50	1,027	375.2	73.5	630	0.22	14.0	25.1	5.5
Praemium	PPS	0.57	286	(46.2)	23.2	76	0.03	12.3	17.8	0.0
Stockbroking						**Average**		**15.4**	**15.5**	**3.3**
Euroz Hartleys	EZL	0.91	150	(74.1)	15.3	96	0.06	9.8	14.4	6.6
E&P Financial Group	EP1	0.42	100	(58.8)	4.8	167	0.03	20.9	16.6	0.0
Other financial						**Average**		**8.2**	**9.7**	**5.4**
MA Financial	MAF	4.53	808	64.0	79.5	289	0.42	10.2	10.9	4.4
Sequoia Financial	SEQ	0.48	65	(39.3)	7.7	98	0.04	8.5	10.7	1.5
Centrepoint Alliance	CAF	0.24	47	(15.6)	7.8	35	0.03	6.1	7.5	10.4
Bell Financial *	**BFG**	**0.94**	**301**	**(110.3)**	**45.2**	**248**	**0.10**	**6.7**	**9.5**	**8.0**

Sources: Company financials, Refinitiv; Prices as at 16 October 2023; * Adjusted to June 2023 year-end

Looking at BFG relative to the peer group using actual FY23 multiple we would highlight the following:

- Trading at a 50% PBTA discount to our selected 'smaller' platform players, being IRE and PPS;
- Trading at a 58% PBTA discount to our selected 'broking' peers, being EZL and EP1;
- Trading at a 20% PBTA discount to our selected 'other financial' peer group;
- Has the second-highest yield of the selected peer group at 8.0% fully franked, and well above the average for 'other financial' of 5.4%;
- Has a solid net cash position, which is a feature of most stockbroking peers; and
- Divisionally, BFG Technology and Platforms (53%) and Products and Services (73%) PBT margins compare favourably with some of the higher rates of financial services players such as NWL, HUB and PPS.

Valuation

Sum of The Parts

Given the mix of growth businesses such as Technology and Platforms, the recurring nature of businesses within Products and Services, and the cyclical nature of Retail and Institutional we believe a Sum of The Parts valuation is the most appropriate valuation methodology for BFG.

For Technology and Platforms we have used the average FY23 PBTA multiple of the two smaller platform operators Iress (ASX:IRE) and Praemium (ASX:PPS) which have similar revenue drivers, operating leverage, and market capitalisation.

For the Margin Lending business within Products and Services we apply a 20% premium to the average regional bank FY23 PBT multiple (6.0x) to reflect the superior credit history, net interest margin, and ROE of this product.

For the PAS and Super business within Products and Services we have conducted a standalone DCF valuation for this product given the recurring nature of this income, low capex, low working capital, and growth visibility relative to other divisions. As a result, we apply a divisional beta of 0.8x against a group beta of 1.1x. Our numbers assume just 20% (or $7b) of Bell Potter's current $34b in FUA adopt the PAS fee option by FY31 against $4.7b currently.

For the combined Retail/Institutional businesses we have applied our 'other financials' peer multiple of 8.2x to 'through the cycle earnings' based on financial years FY20-FY23 inclusive, which incorporates both strong and weak trading environments. Interestingly, if we apply the current average stockbroking peer FY23 PBTA multiple (15.4x) to BFG's FY23 PBTA we arrive at almost the same divisional valuation.

While some divisions provide the market for other divisions to thrive (Retail for example provides the FUA advice for PAS and many leads for Margin Lending), we think the SoTP exercise is useful in identifying the varying nature of revenue and earnings streams by product.

Exhibit 24: BFG Sum of The Parts valuation – FY23 A$m unless otherwise stated

Division	FY23 adj. PBTA	PBTA multiple (x)	Valuation	Comments
Technology and Platforms	14.7	13.1	193	Avg of IRE and PPS, includes amort.
Products and Services	16.1	12.3		
Margin Lending	7.7	7.2	56	20% premium to regional bank average
PAS and Super	8.4	16.9	142	Standalone DCF
Retail *	8.0	8.2	66	Through the cycle PBTA
Institutional *	12.5	8.2	103	(FY20-FY23 inclusive)
Group total	**67.5**		**560**	
Add net cash (Jun-23)			110	
VALUATION			**671**	
Shares on issue			320	
EQUITY VALUE			**$2.10**	**130% upside from current prices**

Source: RaaS estimates; *Average of FY20-FY23 inclusive

Recent transactions of note

There have been several transactions over recent years that provide a guide to the divisional valuations of BFG, and include:

EFG/Shaw & Partners. In April 2019 Swiss private bank EFG International acquired a 51% stake in Shaw & Partners for $61m, valuing the entire business at $120m. Shaw at the time had 150 advisers and FUA (the sum of sponsored holdings) of $20b.

The retail arm within BFG has ~300 advisers and FUA of $39b. With no other financials to work from an extrapolation of FUA and advisers would imply a Retail/Institutional value twice that of Shaw.

Magellan/FinClear. In October 2020 Magellan acquired a 16% stake in FinClear for $27.6m, valuing the total business at $175m. FinClear is a competitor of Third Party Clearing within BFG.

FinClear/Pershing. In 2021 BNY Mellon paid FinClear $60m to take the Pershing Australia trade execution and clearing business from them, implying Pershing was loss making at the time.

LGT/Crestone. In December 2021 LGT Group announced the acquisition of Australian wealth management group Crestone for $475m. Crestone targets wealthy clients and family offices and at the time had an estimated 90 advisers and 250 staff, $25b in funds under advice/management, and was reported to earn

$113m in revenue and $9.5m NPAT, implying a trailing acquisition price of 50x earnings. The rationale for the acquisition was to bring new opportunities to such as alternate investments and ESG to Crestone clients.

Bendigo and Adelaide Bank (ASX:BEN)/ANZ Investment Lending Portfolio. In July 2022 Leveraged Equities (owned by BEN) announced the acquisition of ANZ's margin lending book for $571.5m, a 2.5% premium to the $558m loan value at the time.

No earnings details were provided but BEN highlighted the "high return portfolio is aligned with the bank's objective of growing its return on equity".

Discounted cash-flow valuation

As a sense check we have constructed a DCF valuation driven by our earnings estimates out to FY27 and modest medium-term growth assumptions thereafter. The result is a valuation of $2.15/share.

We would highlight the following as being key drivers/assumptions of this valuation:

- Generally mid-cycle earnings assumptions for the combined Retail/Institutional business;
- 11.4% discount rate incorporating a beta of 1.1x, RFR 4.25%, and equity risk premium of 6.5%;
- Medium-term growth beyond the forecast period of 5.0%;
- Perpetuity growth rate of 2.2%;
- Long-term cash rates settling at 3.5%;
- Unchanged shares on issue; and
- No acquisitions.

Exhibit 25: BFG base-case DCF valuation

Parameters	Outcome
Discount rate /WACC	11.4%
Beta	1.1x
Terminal growth rate assumption	2.2%
Sum of PV ($m)	308.8
PV of terminal value ($m)	273.4
PV of enterprise ($m)	585.2
Debt @ June 23 (cash) ($m)	(110.0)
Net value – shareholder ($m)	696.2
No. of diluted shares on issue (m)	320.7
NPV ($/share)	**$2.15**

Source: RaaS estimates

SWOT Analysis

We see the strengths and opportunities for BFG outweighing weakness and threats, with our SWOT analysis summarised below.

Exhibit 26: Strengths, Weaknesses, Opportunities, Threats

Strengths	**Opportunities**
Strong net cash position	Gain further external users for products and services
Risk management processes and history	Introduce new products and services to existing external offering
Only non-bank margin lender in Australia	Develop new products and/or relationships for existing client base
Diversified revenue streams, many of which are recurring	Increase PAS and FUA fee model, boosting recurring revenue
Focus on technology across the business	
Weaknesses	**Threats**
Traditional stockbroking business is cyclical	Large domestic players move down the food chain to mid-caps
ECM business is cyclical, particularly in mid-caps	Major domestic market correction
Operate in a highly regulated environment	Key clients develop their own trading/execution solutions
Operate in a highly regulated environment	Key clients develop their own trading/execution solutions

Source: RaaS analysis

Board and Management

Directors

Mr Alastair Provan, Executive Chairman. Appointed as Executive Chairman in August 2019, having been Managing Director prior. Mr Provan joined Bell Commodities in 1983 and held a number of dealing and management roles prior to becoming Managing Director.

Mr Graham Cubbin, Independent Director. Appointed to the Board in September 2007, Mr Cubbin was a senior executive at Consolidated Press Holdings from 1990 until September 2005, including Chief Financial Officer for 13 years. Mr Cubbin is currently a Non-Executive Director of Teys Australia Pty Ltd and Non-Executive Director of White Energy Company Ltd.

Mr Brian Wilson AO, Independent Director. Appointed to the Board in October 2009, having been a former Chairman of Australia's Foreign Investment Review Board, a former Chancellor of the University of Technology Sydney, and a former member of the Payments System Board of the Reserve Bank of Australia. Mr Wilson retired in 2009 as a Managing Director of global investment bank Lazard.

Ms Christine Feldmanis, Non-Executive Director. Appointed to the Board in February 2020 having held senior executive and C suite positions with firms including Deloitte, Elders, Finance, Bankers Trust, NSW TCorp, and Treasury Group Limited. Ms Feldmanis is currently a Non-Executive Director and Chair of the Audit and Risk Committees of Omni Bridgeway Ltd, Rabobank Australia Ltd, Utilities of Australia Pty Ltd, Deputy Chair of Hunter Water Corporation, and Chair of Bell Asset Management Ltd.

Exhibit 27: BFG Financial Summary

Bell Financial Group (ASX:BFG)					
Profit and Loss (A$m)					
Y/E 31 Dec	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Operating Revenue	269.1	206.4	186.9	215.6	234.2
Finance/Other Income	23.7	34.9	49.7	50.7	52.5
Total Revenue	**292.8**	**241.3**	**236.6**	**266.3**	**286.6**
EBITDA	75.4	51.4	43.3	61.6	75.6
Depn	(0.6)	(1.0)	(1.1)	(1.1)	(1.1)
RoU	(8.3)	(6.9)	(6.6)	(6.8)	(7.0)
Amortisation	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
PBT	**63.8**	**40.8**	**32.9**	**51.0**	**64.8**
Tax	(19.0)	(11.3)	(10.0)	(16.1)	(20.2)
(Tax Rate)	30%	28%	31%	32%	31%
NPATA normalised	**47.5**	**32.2**	**25.6**	**37.6**	**47.2**
Adjustments	1.1	3.8	0.0	0.0	0.0
NPAT (reported)	**45.9**	**33.2**	**22.9**	**34.9**	**44.5**
Cash flow (A$m)					
Y/E 31 Dec	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Adj EBTDA (after rent)	65.0	47.0	36.7	54.8	68.6
Tax	(21.6)	(12.1)	(10.0)	(16.1)	-20.2
Working Capital	40.8	-7.6	-0.6	30.6	5.2
Other	(10.0)	(24.7)	0.0	0.0	0.0
Operating cash flow	**74.2**	**2.6**	**26.1**	**69.3**	**53.6**
Mtce capex	(1.0)	(0.4)	(1.4)	(1.5)	-1.5
Acquisition of Investments	-9.5	-10.8	-2.8	0.0	0.0
Proceeds from Investments	9.6	5.2	0.0	0.0	0.0
Free cashflow	**73.3**	**(3.5)**	**21.9**	**67.8**	**52.0**
Equity	(1.7)	(1.4)	0.0	0.0	0.0
Borrowings	95.6	(0.0)	0.0	0.0	0.0
CHG in Client Cash Balance	43.6	-19.7	0.0	0.0	0.0
CHG in Margin Loans	-63.5	37.8	0.0	0.0	0.0
CHG in borrowings	52.0	-48.0	14.6	0.0	20.0
Net Dividends paid	(35.3)	(28.9)	(24.0)	(22.5)	-25.7
Change in cash	**164.1**	**(63.6)**	**12.5**	**45.4**	**46.4**
Balance sheet (A$m)					
Y/E 31 Dec	**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
Cash	136.5	110.3	116.0	158.4	182.8
Client cash	216.2	151.0	135.2	144.6	160.1
Trade receivables	100.9	151.0	135.2	144.6	160.1
Other receivables	180.7	102.8	92.0	98.4	109.0
Financial Assets	13.3	15.6	18.4	18.4	18.4
Loan advances	534.0	495.8	520.0	520.0	540.0
RoU assets	12.2	45.5	38.9	32.1	25.2
Goodwill	130.4	130.4	130.4	130.4	130.4
Intangibles	14.8	15.5	16.1	16.4	15.7
Other assets	7.9	36.1	37.2	45.4	49.5
Total Assets	**1,347.0**	**1,254.0**	**1,239.4**	**1,308.7**	**1,391.1**
Trade payables	132.5	168.9	158.0	176.6	189.1
Other payables	324.8	253.1	236.8	264.6	283.4
Bell Financial Trust	481.1	461.4	461.4	461.4	461.4
Cash Advance Facility	92.0	44.0	58.6	58.6	78.6
Lease Liability	16.3	52.0	52.0	52.0	52.0
Employee Benefits	58.9	37.2	36.3	38.5	39.7
Other	2.4	1.9	1.9	10.3	21.3
Total Liabilities	**1,108.0**	**1,018.6**	**1,005.1**	**1,062.0**	**1,125.5**
Net Assets	**239.0**	**235.4**	**234.3**	**246.7**	**265.6**
Share capital	204.2	204.2	204.2	204.2	204.2
Other Equity	(28.9)	(28.9)	(28.9)	(28.9)	(28.9)
Reserves	(0.6)	(1.0)	(1.0)	(1.0)	(1.0)
Retained Earnings	64.2	61.0	59.9	72.3	91.2
Total Shareholder funds	**239.0**	**235.4**	**234.3**	**246.7**	**265.6**

Share price (16 October 2023)					A$	0.920
Interim (A$m)	**H122A**	**H222A**	**H123A**	**H223F**	**H124F**	**H224F**
Revenue	111.8	129.5	118.7	117.9	128.0	138.3
EBITDA	21.8	29.7	23.1	20.1	27.3	34.2
EBIT	16.1	24.7	17.9	15.0	22.0	29.0
NPATA (normalised)	**14.7**	**20.2**	**15.5**	**12.8**	**17.7**	**22.6**
Adjustments	(3.2)	(0.6)	(1.4)	0.0	0.0	0.0
NPAT (reported)	11.5	19.6	14.1	12.8	17.7	22.6
EPS (adjusted)	0.046	0.063	0.048	0.040	0.055	0.070
Dividend (cps)	0.025	0.045	0.030	0.030	0.040	0.040
Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H122A**	**H222A**	**H123A**	**H223F**	**H124F**	**H224F**
Revenue	**111.8**	**129.5**	**118.7**	**117.9**	**128.0**	**138.3**
Technology & Platforms	12.3	11.6	11.0	11.3	12.0	12.9
Products & Services	11.3	10.9	11.3	12.0	12.3	12.6
Retail	57.9	55.6	50.7	49.9	54.5	61.6
Institutional	16.9	29.9	21.2	19.5	23.8	25.8
Interest/Other	13.4	21.5	24.5	25.2	25.4	25.4
Profit After Tax	**9.2**	**16.5**	**11.1**	**10.4**	**15.2**	**20.0**
Technology & Platforms	2.3	3.9	4.6	4.8	5.1	5.8
Products & Services	5.4	5.7	5.9	6.3	6.7	6.9
Retail	0.8	1.6	- 1.6	- 2.3	- 0.3	2.6
Institutional	0.7	5.3	2.1	1.7	3.7	4.7
PAT %	**8.3%**	**12.7%**	**9.3%**	**8.9%**	**11.8%**	**14.5%**
Margins, Leverage, Returns		**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
EBITDA margin %		25.8%	21.3%	18.3%	23.1%	26.4%
EBIT margin %		21.8%	16.9%	13.9%	19.1%	22.6%
NPAT margin (pre significant items)		16.2%	13.3%	10.8%	14.1%	16.5%
Net Debt (Cash)		- 136.49	- 110.31	- 116.00	- 158.37	- 182.76
Net debt/EBITDA (x)	(x)	-1.8	-2.1	-2.7	-2.6	-2.4
ND/ND+Equity (%)	(%)	(57.5%)	(47.3%)	(50.1%)	(64.9%)	(69.4%)
EBITDA interest cover (x)	(x)	-0.6	-0.5	-0.4	-0.4	-0.4
ROA		9.5%	3.1%	2.6%	4.0%	4.8%
ROE		19.2%	14.1%	9.8%	14.1%	16.8%
NTA (per share)		0.29	0.28	0.27	0.31	0.37
Working capital		184.6	133.2	112.4	112.6	131.2
WC/Sales (%)		**68.6%**	**64.5%**	**60.1%**	**52.2%**	**56.0%**
Revenue growth			(23.3%)	(9.4%)	15.3%	8.6%
EBIT growth pa			(36.1%)	(19.3%)	55.0%	27.0%
Pricing		**FY21A**	**FY22A**	**FY23F**	**FY24F**	**FY25F**
No of shares (y/e)	(m)	320	319	321	321	321
Weighted Av Dil Shares	(m)	320	319	321	321	321
EPS Reported	A$ cps	0.143	0.104	0.071	0.109	0.139
EPS Normalised/Diluted	A$ cps	0.148	0.101	0.080	0.117	0.147
EPS growth (norm/dil)		-3%	-32%	-21%	47%	26%
DPS	cps	0.11	0.07	0.06	0.08	0.09
DPS Growth		5%	-36%	-14%	33%	13%
Dividend yield		12.0%	7.6%	6.5%	8.7%	9.8%
Dividend imputation		30	30	30	30	30
PE (x)		6.2	9.1	11.5	7.9	6.2
PE market		15.0	15.0	15.0	15.0	15.0
Premium/(discount)		(58.6%)	(39.2%)	(23.1%)	(47.7%)	(58.4%)
EV/EBITDA (x)		3.9	5.7	6.8	4.8	1.5
FCF/Share	A cps	0.218	(0.021)	0.058	0.202	0.156
Price/FCF share		4.2	(42.9)	15.8	4.6	5.9
Free Cash flow Yield		23.7%	(2.3%)	6.3%	22.0%	17.0%

Source: Company data for actuals, RaaS estimates

Appendix – Glossary of terms

ASX – Australian Stock Exchange is Australia's primary Securities Exchange formed in April 1987 amalgamating six state securities exchanges at the time and merged with the Sydney Futures Exchange in 2006.

ECM – Equity Capital Markets refers to a broad network of financial institutions, channels and markets that assist companies to raise capital.

FUA – Funds Under Advice. In the case of BFG FUA is the sum of client CHESS sponsored holdings across both Bell Potter Securities and the on-line business of Bell Direct.

FUA – **Funds Under Administration**. In the case of BFG FUA is value of CHESS-sponsored holdings that have elected to pay a set fee for the administration of these holdings and/or portfolios.

FUM – Funds Under Management refers to the active management of funds in return for a management fee and often a performance fee.

IPO – Initial Public Offering refers to the listing of a company for the first time on a stock exchange, in BFG's case typically the ASX.

PBTA – Profit Before Tax and Amortisation is used for BFG because interest income and interest expense are material components of revenue and costs, rendering measurements such EBIT and EBITDA not meaningful.

PAS – Portfolio Administration Services. In the case of BFG is the same as Funds Under Administration as it relates to the administration of sponsored holdings.

TPP - Third Party Platform is the 100% owned entity of BFG responsible for the development and maintenance of execution and settlement platforms internally and externally.

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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