ShawandPartners

Managed Accounts Holdings (MGP)

Rating: Buy | Risk: High | Price Target: $0.38

Resume coverage with a BUY; Transformed Earnings in an Attractive Growth Industry

Key Information

Current Price ($ps)	0.29
12m Target Price ($ps)	0.38
52 Week Range ($ps)	0.24 - 0.40
Target Price Upside (%)	31.0%
TSR (%)	31.0%
Reporting Currency	AUD
Market Cap ($m)	86.0
Sector	Financials
Avg Daily Volume (m)	0.9
ASX 200 Weight (%)	0%

Fundamentals

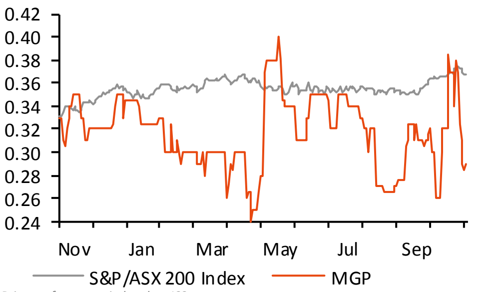
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales ($m)	6.9	13.8	21.9	32.2
NPAT ($m)	0.8	2.4	7.2	9.4
EPS (cps)	0.6	0.8	2.4	3.2
EPS Growth (%)	11.1%	29.4%	205.1%	30.2%
DPS (cps) (AUD)	0.8	0.0	0.0	2.5
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	57.1	36.6	12.0	9.2
EV/EBITDA (x)	36.4	29.9	10.0	6.2
Div Yield (%)	2.3%	0.0%	0.0%	8.7%
Payout Ratio (%)	130.5%	0.0%	0.0%	80.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(9.6%)	3.0%	(14.8%)	(23.7%)
Absolute (%)	(7.9%)	7.4%	(12.1%)	(12.1%)
Benchmark (%)	1.7%	4.4%	2.7%	11.6%



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Donald Sharp	17.7%
Colin Scully	17.7%
Argo Investments Ltd.	7.3%
Paul Collins	7.0%

Disclaimer: Shaw acted for the company in a corporate capacity within the past 12 months for which it received a fee. See the back page of this report for the full disclaimer.

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Event

We reinstate coverage of MGP with a BUY with coverage transferring to Matthew Johnston. MGP has completed a $34.0m capital raising to largely fund the acquisition of Linear Holdings. We have reviewed our model and have revised our FY18-FY20 EPS estimates to 0.8 cps, 2.4 cps and 3.2 cps respectively. Our 12 month target price is now $0.38 (previously $0.35).

Highlights

- **As a refresher, MGP is an independent investment administration solution provider.** The combined entity of MGP and Linear Holdings (LIN) provides clients with a diverse offering so that various stakeholders in the wealth management industry can interact with investment markets. The offerings of the merger will be complementary to enhance the product and service offering to existing clients and bolster MGP's business development process to penetrate new clients.
- **The merger and indicated cost synergies transform the earnings of MGP.** The deal is highly attractive and accretive given the indicated cost synergies to be realised by FY19. Shaw is forecasting EBITDA margins to expand from 18% in FY17 to ~34% in FY19F. From a standalone basis, we see this to be attainable as we quantify the indicated $3.5m savings as: (1) elimination of executive and duplicated staff functions ($1.7m), (2) relocation of premium occupancy expenses ($550k), (3) Consolidating service provider functions ($750k); and (4) Operational efficiencies leveraged from shared services functions ($500k). We also suspect further synergies will be gained over time from a technology basis and revenue uplift from an enhanced product offering. However, we factor no additional benefit at this time.
- **MGP is set to benefit from structural industry tailwinds at the infancy of the growth phase.** Independent administration providers are set to benefit from industry tailwinds given: (1) Government mandated Superannuation industry growth, (2) a structural shift from institutional aligned platform providers to independents, (3) MGP provides bespoke managed account solutions tailored to client's needs; and (4) regulatory opportunities that may see wealth managers source a licenced MDA (managed discretionary account) provider, i.e. MGP.
- **MGP's growth continues to evolve and its product capability will be enhanced with Linear's offerings**. MGP has recently announced memorandum of understandings (MoUs) with FUA of ~$5.5b with two leading financial institutions. MGP has recently hired a Head of Distribution, Tony Nejasmic, who has had a long successful career in growing FUA onto platforms in the wealth management industry. Since starting, MGP commentary has indicated its pipeline has increased by 40% within the past six months.
- **Key Investment risks.** 1) Post-merger integration of operations and technology whilst maintaining core business growth, 2) Loss of key clients due to competitive pressure or new technologies; and 3) Regulatory changes impacting MGP's ability to service its clients.
- Our 12 month price target is derived by equally weighting our DCF and 12 month forward multiples of MGP's EV/EBITDA and P/E.

Recommendation

We resume coverage with a BUY recommendation and a target price of $0.38. We look forward through to FY19 and based on our forecast FY19 EPS of 2.4 cps, MGP is trading 12x, which screens cheap relative to its listed industry peers trading at an average of ~24x.

The acquisition of Linear will provide MGP with an enhanced and broader service offering. Post executing on cost synergies, this will re-rate earnings, which will materially improve cash flow and illustrates the scalability that can be achieved from independent administration providers. Our focus and what we see as catalysts will be (1) execution and updates on realising costs synergies; and (2) Improved FUA growth from recent and improving business pipeline opportunities.

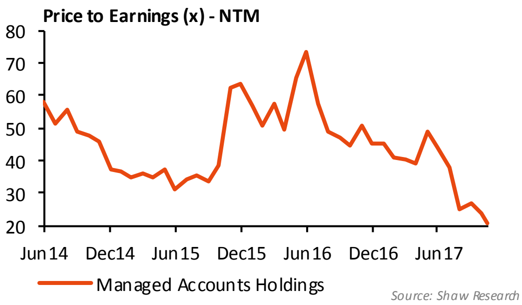
Managed Accounts Holdings
Financials
Diversified Financials
FactSet: MGP-AU / Bloomberg: MGP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.29
Target Price ($ps)	0.38
52 Week Range ($ps)	0.24 - 0.40
Shares on Issue (m)	296.6
Market Cap ($m)	86.0
Enterprise Value ($m)	81.0
TSR (%)	31.0%

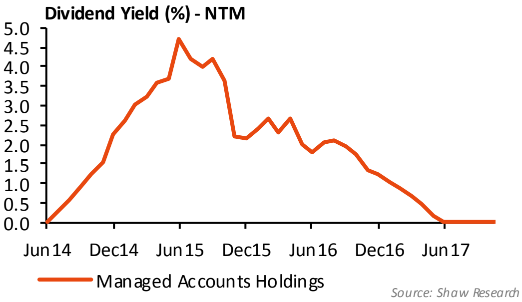
Valuation NPV	Data
Beta	1.40
Cost of Equity (%)	13.4%
Cost of Debt (net) (%)	7.6%
Risk Free Rate (%)	5.0%
Terminal Growth (%)	3.0%
WACC (%)	13.4%

Company Description

Managed Accounts Holdings Ltd. engages in the development and distribution of managed accounts to licensees and their clients. It provides Managed Discretionary Account (MDA) service which offers to independent financial advisory practices and their clients to the industry. It also enables financial planning groups to manage their own portfolios, or mandate to their choice of professional managers across security types including Australian equities, hybrid securities, term deposits, managed funds, government bonds, exchange traded funds cash, and other selected assets. The company was founded by Paul Collins in 2004 and is headquartered in Sydney, Australia.



Source: Shaw Research



Source: Shaw Research

Financial Year End: 30 June

Investment Summary (AUD)	FY16A	FY17A	FY18E	FY19E	FY20E
EPS (Reported) (cps)	**0.5**	**0.5**	**(0.4)**	**2.4**	**3.2**
EPS (Underlying) (cps)	**0.6**	**0.6**	**0.8**	**2.4**	**3.2**
EPS (Underlying) Growth (%)	33.0%	11.1%	29.4%	205.1%	30.2%
PE (Underlying) (x)	**81.6**	**57.1**	**36.6**	**12.0**	**9.2**
EV / EBIT (x)	**61.4**	**40.0**	**34.8**	**10.5**	**6.4**
EV / EBITDA (x)	**59.5**	**36.4**	**29.9**	**10.0**	**6.2**
DPS (cps) (AUD)	0.8	0.8	0.0	0.0	2.5
Dividend Yield (%)	1.8%	2.3%	0.0%	0.0%	8.7%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	145.0%	130.5%	0.0%	0.0%	80.0%

Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	5.5	6.9	13.8	21.9	32.2
Sales Growth (%)	*26.3%*	*25.4%*	*100.2%*	*58.3%*	*47.4%*
EBITDA	**1.0**	**1.2**	**2.7**	**7.5**	**11.3**
EBITDA Margin (%)	*18.0%*	*18.0%*	*19.7%*	*34.1%*	*35.0%*
Depreciation & Amortisation	0.0	(0.1)	(0.4)	(0.3)	(0.3)
EBIT	**1.0**	**1.1**	**2.3**	**7.1**	**11.0**
EBIT Margin (%)	*17.4%*	*16.4%*	*16.9%*	*32.5%*	*34.0%*
Net Interest	0.2	0.1	0.0	0.1	0.2
Pretax Profit	1.1	1.2	2.4	7.2	11.2
Tax	(0.4)	(0.4)	0.0	0.0	(1.8)
Tax Rate (%)	*(33.4%)*	*(32.2%)*	*0.0%*	*0.0%*	*(16.1%)*
NPAT Underlying	**0.7**	**0.8**	**2.4**	**7.2**	**9.4**
Significant Items	0.0	(0.1)	(3.5)	0.0	0.0
NPAT Reported	**0.7**	**0.7**	**(1.1)**	**7.2**	**9.4**

Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	1.0	1.1	2.3	7.1	11.0
Tax Paid	0.0	0.0	(0.2)	0.0	0.0
Net Interest	0.1	0.1	0.0	0.1	0.2
Change in Working Capital		0.0	(0.3)	(1.1)	(2.9)
Depreciation & Amortisation	0.0	0.1	0.4	0.3	0.3
Other	0.1	0.3	0.0	0.0	0.0
Operating Cashflow	**1.3**	**1.6**	**2.2**	**6.4**	**8.6**
Capex	(0.9)	(1.7)	(0.1)	(0.1)	(0.1)
Acquisitions and Investments	0.0	0.0	(32.0)	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	0.9	1.1	0.0	0.0	0.0
Investing Cashflow	**(0.1)**	**(0.5)**	**(32.1)**	**(0.1)**	**(0.1)**
Equity Raised / Bought Back	(0.2)	(0.3)	34.0	0.0	0.0
Dividends Paid	(1.1)	(1.1)	(0.5)	0.0	(4.1)
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cashflow	**(1.3)**	**(1.4)**	**33.5**	**0.0**	**(4.1)**
Net Change in Cash	**(0.1)**	**(0.3)**	**3.6**	**6.4**	**4.4**

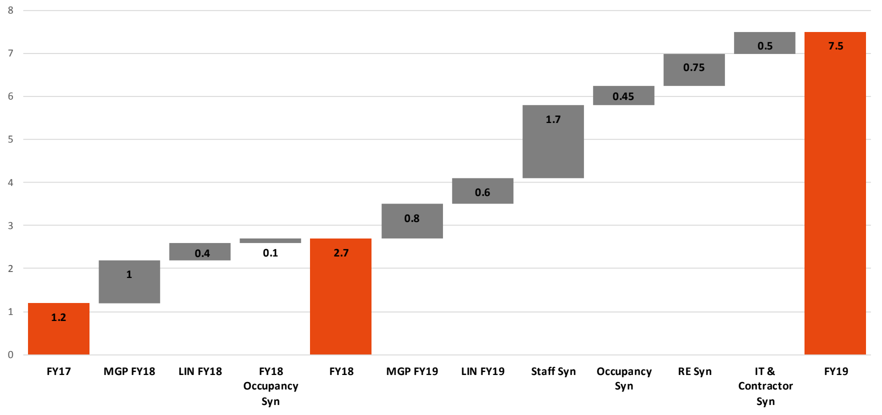
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	1.9	1.6	5.3	11.6	16.1
Accounts Receivable	1.3	1.0	5.9	7.5	11.1
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	3.0	1.2	1.2	1.2	1.2
PPE	0.0	0.1	0.1	0.1	0.1
Goodwill & Intangibles	1.1	2.6	2.3	2.0	1.7
Investments	0.0	0.5	0.5	0.5	0.5
Other Non Current Assets	0.7	0.6	0.9	0.9	0.9
Total Assets	**8.2**	**7.6**	**16.1**	**23.8**	**31.6**
Accounts Payable	0.6	0.6	5.1	5.6	6.4
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	0.3	0.4	4.7	4.9	6.9
Total Liabilities	**0.9**	**1.0**	**9.8**	**10.5**	**13.2**

Ratios	FY16A	FY17A	FY18E	FY19E	FY20E
ROIC (%)	(4.7%)	(3.9%)	28.9%	54.1%	28.6%
Net Debt / Book Equity (x)	(0.3)	(0.2)	(0.8)	(0.9)	(0.9)
Net Debt / EBITDA (x)	(1.9)	(1.3)	(1.9)	(1.6)	(1.4)

Investment Thesis

MGP's post-merger cost synergies will transform the earnings of the entity increasing EBITDA margins from ~18% in FY17 to ~34% in FY19F. Shaw is forecasting a 2 year EBITDA CAGR of 263%.

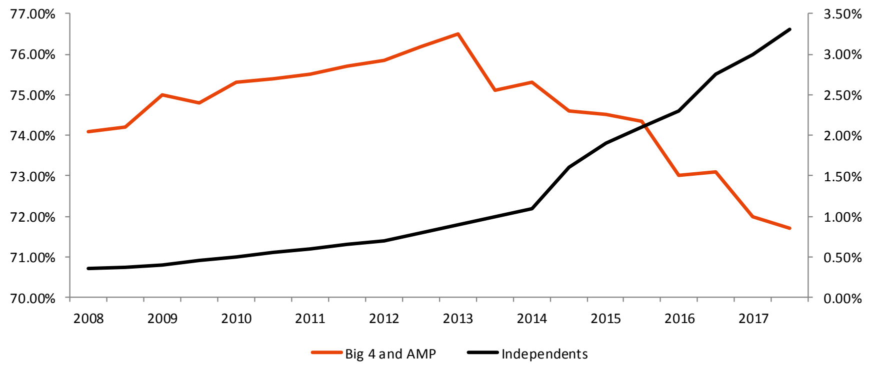
Figure 1: EBITDA bridge ($m)



Source: Company data, Shaw and Partners estimates

A structural shift is occurring as advisers and IFAs transition from aligned institutional offerings to independents like MGP. MGP's customisable and enhanced solutions will drive increased market share.

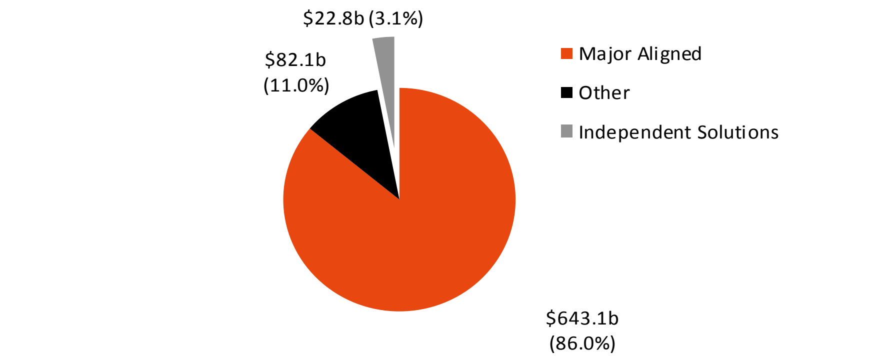
Figure 2: Big 4 Banks and AMP (LHS) vs Independent providers (RHS) market share



Source: Strategic Insights, Shaw and Partners

The independent platform market is at the infancy of the industry growth phase representing ~3% of the platform market. However, independents are winning ~29% of flows.

Figure 3: Platform market ~$750b with independents accounting for 3.1%



Source: Strategic Insights March 2017, Shaw and Partners

MGP trades at a significant discount to independent investment administration peers once cost synergies are realised in FY19. MGP is currently trading at a 36% and 50% discount to peers on an EV/EBITDA and PE basis respectively.

Shaw's Target Price = $0.38

Figure 4: Realisation of cost synergies will significantly discount MGP's valuation

Entity	Ticker	EBIT margin FY1-FY3 Avg	EV/EBITDA +1	EV/EBITDA +2	P/E +1	P/E +2
HUB24 Limited	HUB-AU	23%	38.8x	22.5x	46.5x	28.2x
OneVue Holdings Ltd	OVH-AU	14%	18.0x	11.6x	25.0x	16.1x
Praemium Ltd	PPS-AU	27%	24.0x	16.2x	38.7x	26.2x
Class Ltd.	CL1-AU	41%	16.2x	12.7x	33.4x	26.0x
Platform Mean		**26%**	**24.3x**	**15.8x**	**35.9x**	**24.1x**
Platform Median		**25%**	**21.0x**	**14.5x**	**36.1x**	**26.1x**
Managed Accounts Holdings Ltd.	MGP-AU	32%	29.9x	10.0x	36.6x	12.0x
MGP premium/ (discount)		**20%**	**23%**	**-36%**	**2%**	**-50%**

Source: FactSet data, Shaw and Partners estimates

Valuation

We derive our target price of $0.38 a share using a combination of a discounted cash flow (DCF) and 12 month forward multiples of MGP's EV/EBITDA and PE We equally weight our methodologies, which derives a forecasted total shareholder return of 31%.

Figure 5: DCF ($m)

	FY18F	FY19F	FY20F	FY21F	FY22F
EBITDA	**2.7**	**7.5**	**11.3**	**13.4**	**15.3**
Income taxes paid	(0.2)	-	-	(3.8)	(4.3)
Net Interest Income/ (expense)	0.0	0.1	0.2	0.3	0.4
Δ Working Capital	(0.3)	(1.1)	(2.9)	(1.2)	(0.9)
Operating Cash Flow	**2.2**	**6.4**	**8.6**	**8.8**	**10.5**
Capex	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Free Cash Flow	**2.2**	**6.4**	**8.6**	**8.7**	**10.4**

Source: Shaw and Partners

Our DCF is based on a WACC of 13.4%. Our key DCF inputs are (1) risk free rate of 5.0%, (2) market risk premium of 6%, (3) Equity Beta of 1.4, (4) Debt premium of 2.6%, (5) Stage 2 growth assumption of 8%; and (6) terminal growth rate of 3.0%.

We **use a 3-stage DCF** approach whereby we forecast free cash flows to FY22F, followed by a horizon period where free cash flow grows at a rate of 8% till our terminal growth rate of 3% applied at 10 years from our discount date.

Figure 6: 12-month forward valuations

12 month forward price (P/E)	30-Jun-18	15-Nov-18	30-Jun-19
MGP underlying EPS (cps)	0.793		2.420
MGP underlying 12 month forward EPS (cps)		**1.41**	
12 month forward P/E (x)		30.0x	
12 month forward price		**$0.42**	

12 month forward price (EV/EBITDA)	**30-Jun-18**	**15-Nov-18**	**30-Jun-19**
MGP underlying EBITDA	2.71	**4.51**	7.46
Multiple		22.0x	
EV		99.28	
Net debt	(5.27)	**(7.68)**	(11.63)
Equity		106.96	
Shares	297.57	**297.57**	297.57
12 month forward price (EV/EBITDA)		**$ 0.36**	

MGP DCF	**30-Jun-18**	**15-Nov-18**	**30-Jun-19**
NPV (EV)	93.90		106.75
- Net debt	-5.27		-11.63
Fair Value	99.17		118.38
Fair value per share	**$ 0.33**	**$ 0.36**	**$ 0.40**

Source: Shaw and Partners

Figure 7: Independent Platform Industry Comps

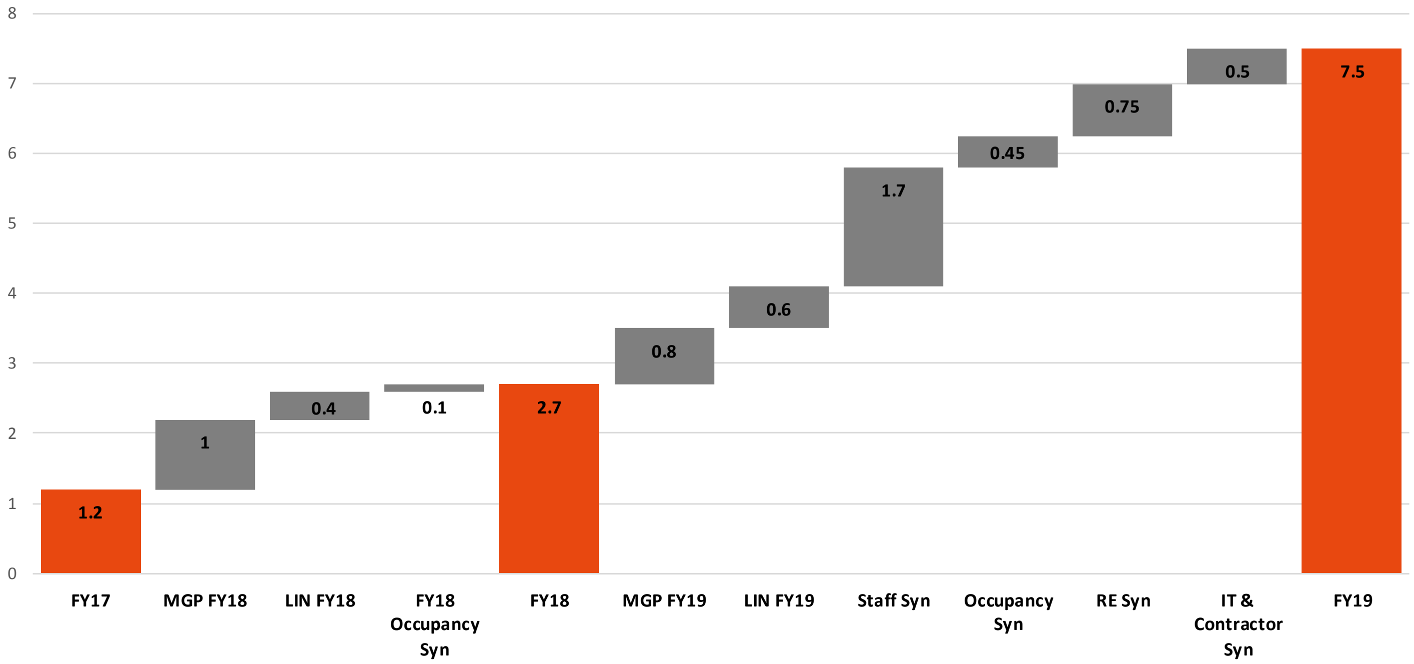
Entity	Ticker	Price LOC	Mkt Cap AUD	EBIT margin FY1-FY3 Avg	EV/EBIT +1	EV/EBIT +2	EV/EBITDA +1	EV/EBITDA +2	P/E +1	P/E +2	Yield +1	Yield +2	EPS CAGR (2 yr)
HUB24 Limited	HUB-AU	8.80	534	23%	38.2x	22.0x	38.1x	22.1x	45.6x	27.7x	1.2%	2.9%	46.1%
OneVue Holdings Ltd	OVH-AU	0.66	174	14%	35.3x	17.3x	18.0x	11.6x	25.0x	16.1x	0.0%	1.6%	44.8%
Managed Accounts Holdings Ltd.	MGP-AU	0.33	44	32%	19.7x	11.4x	16.2x	10.1x	30.7x	18.5x	2.5%	4.1%	58.1%
Praemium Ltd	PPS-AU	0.61	244	27%	27.1x	17.6x	23.8x	16.1x	38.4x	26.0x	0.0%	1.2%	41.0%
Class Ltd.	CL1-AU	2.82	332	41%	21.5x	16.5x	16.6x	13.1x	34.2x	26.6x	2.0%	2.6%	26.9%
Platform Mean				**27%**	**28.4x**	**17.0x**	**22.6x**	**14.6x**	**34.8x**	**23.0x**	**1.1%**	**2.5%**	**43.4%**
Platform Median				**27%**	**27.1x**	**17.3x**	**18.0x**	**13.1x**	**34.2x**	**26.0x**	**1.2%**	**2.6%**	**44.8%**

Source: FactSet, Shaw and Partners

Financials

We assess the impact of MGP and Linear's forecast earnings growth contribution, as well as accounting for the benefit of costs synergies estimated by MGP management. Shaw is forecasting an additional $6.3m in EBITDA over the next two years to be realised by FY19. We allocate a 29% contribution from MGP's earnings, 16% contribution from Linear and 56% resulting from cost synergies.

Figure 8: EBITDA bridge ($m)



Source: Company data, Shaw and Partners estimates

Synergies

We outline the synergies MGP management intend to strip out of the combined entity below and illustrated above in Figure 8.

Figure 9: Targeted synergies

Target annual pre-tax cost synergies $3.5m	**Employee cost reduction**	Costs to be gained from a reduction in executive functions, duplicate roles and staff attrition. Contribution estimate **$1.7m**
	Occupancy costs	opportuntiy to reduce property leased currently by Linear and relcate by the end of May 2018. a full run rate estimate is **~$550k**.
	External service providers	Consolidate to MGP's provider and in-house functions. Estimated contribution **750k**
	IT and Contractor functions	operational efficiencies to be gained by leveraging shared services and improved support functions. Contribution of **500k**

Source: Company and Shaw and Partners estimates

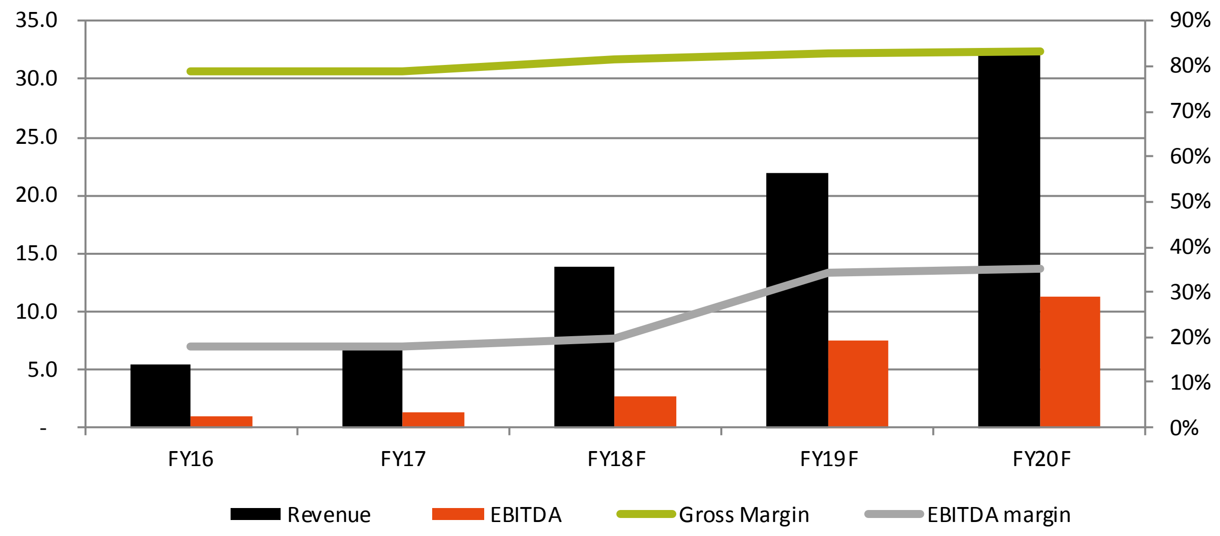
Figure 10: Profit and Loss Summary

Consolidated P&L (A$mn)	FY16	FY17	FY18F	FY19F	FY20F
Total Revenue	**5.5**	**6.9**	**13.8**	**21.9**	**32.2**
Gross Profit	4.3	5.4	11.2	18.1	26.8
Gross Margin	79%	79%	81%	83%	83%
EBITDA	**1.0**	**1.2**	**2.7**	**7.5**	**11.3**
EBITDA margin	18%	18%	20%	34%	35%
Depreciation	(0.03)	(0.03)	(0.03)	(0.04)	(0.05)
Amortisation	-	(0.08)	(0.35)	(0.31)	(0.26)
EBIT	**1.0**	**1.1**	**2.3**	**7.1**	**11.0**
Finance Costs	0.2	0.1	-	-	-
Interest Income	-	-	0.0	0.1	0.2
Profit Before Tax	**1.1**	**1.2**	**2.4**	**7.2**	**11.2**
Tax	(0.4)	(0.4)	-	-	(1.8)
Net Profit After Tax	**0.7**	**0.8**	**2.4**	**7.2**	**9.4**
Significant Items	-	(0.2)	(3.5)	-	-
Reported NPAT (post OEI & SI)	**0.7**	**0.7**	**(1.1)**	**7.2**	**9.4**

Source: Company data, Shaw and Partners estimates

- MGP has been a profitable company since listing in 2014 unlike some of its industry peers. Key to its profitability is outsourcing the technological capability and development work which does not tie up capital into capex and operating expenses. FY18 reported NPAT will be negative due to transaction costs incurred for raising capital to fund the Linear merger.
- MGP's ability to realise the intended cost synergies from the merger with linear will transform the earnings margins of the business. MGP reported an underlying EBITDA margin in FY17 of 18% and we estimate by FY19 margins will expand to 34%.
- MGP picks up significant tax losses from Linear and hence we estimate will not pay tax to at least FY20.

Figure 11: MGP's Revenue and EBITDA (LHS: $m) vs Gross and EBITDA margin (RHS: $m)



Source: Company data, Shaw and Partners estimates

Figure 12: Balance sheet

Balance Sheet	FY16	FY17	FY18F	FY19F	FY20F
Cash	1.9	1.6	5.3	11.6	16.1
Receivables	1.3	1.0	5.9	7.5	11.1
Other	3.0	1.2	1.2	1.2	1.2
Total Current Assets	**6.3**	**3.8**	**12.3**	**20.3**	**28.3**
PP&E	0.0	0.1	0.1	0.1	0.1
Intangibles	1.1	2.6	2.3	2.0	1.7
Deferred Tax Asset	0.7	0.3	0.3	0.3	0.3
Total Non-Current Assets	**1.9**	**3.8**	**3.8**	**3.5**	**3.2**
Total Assets	**8.2**	**7.6**	**16.1**	**23.8**	**31.6**
Payables	0.6	0.6	5.1	5.6	6.4
Provisions	0.2	0.2	1.2	1.4	1.6
Other	3.0	1.2	1.2	1.2	1.2
Total Current Liabilities	**0.8**	**0.8**	**7.8**	**8.4**	**9.4**
Deferred Tax	-	-	-	-	1.8
Provisions NCL	0.1	0.1	0.2	0.2	0.2
Other NCL	-	-	1.8	1.8	1.8
Total Non-Current Liabilities	**0.1**	**0.1**	**2.0**	**2.0**	**3.8**
Total Liabilities	**0.9**	**1.0**	**9.8**	**10.5**	**13.2**
Total Equity	**7.3**	**6.7**	**6.3**	**13.3**	**18.3**

Source: Company data, Shaw and Partners estimates

- Post-merger, MGP will be debt free and have ~$5.3m cash to fund working capital as management execute on further MoUs and an increasing development pipeline.

Figure 13: Cash flow statement

Cash Flow Statement	FY16	FY17	FY18F	FY19F	FY20F
Net Operating Cashflows	1.3	1.6	2.2	6.4	8.6
Net Investing Cashflows	(0.1)	(0.5)	(32.1)	(0.1)	(0.1)
Net Financing Cashflows	(1.3)	(1.4)	33.5	-	(4.1)
Net increase/ (decrease) in cash	**(0.1)**	**(0.3)**	**3.6**	**6.4**	**4.4**
Net cash at end of period	1.9	1.6	5.3	11.6	16.1
Free cashflow (FCF)	**0.3**	**(0.1)**	**2.2**	**6.4**	**8.6**

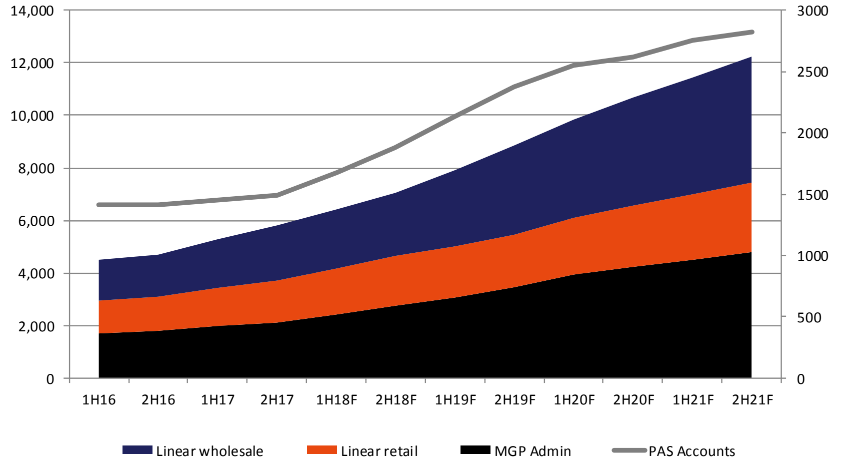
Source: Company data, Shaw and Partners estimates

- Outside the cash commitments to fund the Linear merger, MGP is relatively capital light compared to industry peers as they have an outsourced strategy for its front end development (Capital Road), but also that Linear uses a proprietary front end, with all development costs expenses in the forecast period.
- MGP has previously paid a dividend to shareholders, however, through the integration period we suspect this will be placed on hold in FY18 and depending on capital requirements to fund organic growth and to ensure synergies are executed in FY19, dividends may be postponed into FY20.
- We believe there is a probability that some cash flow through to FY19 will be allocated to technology investment as MGP work through the integration between MGP's and Linears functions. As MGP management have flagged this will be an evolving process once the merger is completed we will discuss with management at a later date to get further clarity of how this may impact the cash flow.

Funds under Administration (FUA) and Portfolio Administration Services (PAS) accounts.

Given that the large amount of the combined entity is revenue generation is dependent on FUA and the number of PAS accounts, future growth in net flows, number of accounts serviced for PAS and market movements is pivotal for the firm's financial performance.

Figure 14: FUA (LHS: $m) and PAS accounts (RHS: #)



Source: MGP and Linear Holdings data, Shaw and Partners estimates

Flows and account growth is driven by:

- Ongoing FUA transition from existing customers: transitioning existing IFA customers and advisers. Working with current client base and target FUA by upselling the combined entities enhanced capability.
- Conversion of existing MoU's: MGP has recently announced MoU's with FUA of ~$5.5b with two leading financial institutions. Focus on implementation phase and creating infrastructure for clients to enhance adviser and IFA conversions.
- Attracting new IFA's: Increased investment in sales and marketing. The appointment of Tony Nejasmic to Head of Distribution has increased the pipeline for IFA's by 40%.
- Expansion into the Broker and Institutional Markets: Leveraging the combined groups' capability and penetrating new institutional clients.

Figure 15: FUA and PAS growth

	1H16	2H16	1H17	2H17	1H18F	2H18F	1H19F	2H19F	1H20F	2H20F	1H21F	2H21F
MGP retail	1,695	1,794	1,979	2,107	2,414	2,750	3,061	3,454	3,936	4,229	4,495	4,791
Linear retail	1,250	1,300	1,450	1,600	1,750	1,900	1,950	2,000	2,160	2,333	2,496	2,646
Total retail FUA	**2,945**	**3,094**	**3,429**	**3,707**	**4,164**	**4,650**	**5,011**	**5,454**	**6,096**	**6,562**	**6,991**	**7,437**
Growth			*16%*	*20%*	*21%*	*25%*	*20%*	*17%*	*22%*	*20%*	*15%*	*13%*
Linear wholesale	1,555	1,600	1,850	2,100	2,250	2,400	2,900	3,100	3,410	3,751	4,051	4,375
Total FUA	**4,500**	**4,694**	**5,279**	**5,807**	**6,414**	**7,050**	**7,911**	**8,554**	**9,506**	**10,313**	**11,042**	**11,812**
PAS Accounts	**1,410**	**1,417**	**1,455**	**1,493**	**1,680**	**1,880**	**2,130**	**2,380**	**2,547**	**2,618**	**2,750**	**2,827**

Source: MGP and Linear Holdings data, Shaw and Partners estimates

Industry Overview

The independent platform market has attracted further attention from both the industry participants and from the market as an investment proposition. In aggregate, independent platforms have passed the profitability inflexion point and have since gained heightened attention from the market, aided by an increase in corporate activity and the recent IPO of Netwealth set to list on 20 November 2017.

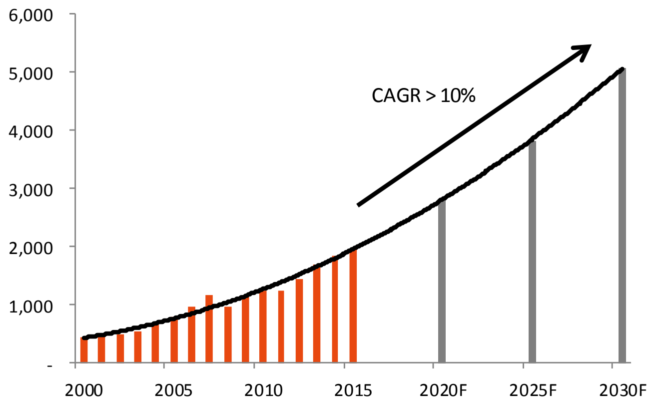
Independent administrative solution offerings will outpace industry growth.

The industry drivers provide a sub sector in the diversified financial space that is likely to see a transition that will fuel growth over the long term given:

1. **Government Mandated Superannuation industry growth:**

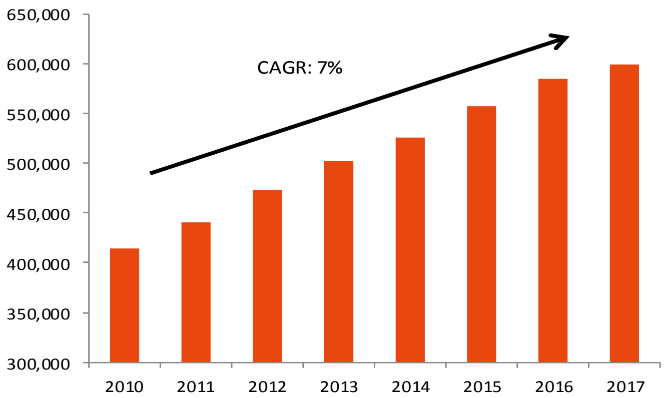
The mandated savings scheme is central to Australia's wealth management retirement solution and its current contribution rate is 9.5% and set to increase to 12% in the next eight years. With MGP's post-merger product offering servicing clients SMSF and Super assets, it is exposed to the contributions its underlying end users are required to make as well as any voluntary contributions they make above the mandated minimum.

Figure 16: Superannuation growth



Source: Actuals: ABS, Forecast: Treasury

Figure 17: SMSF growth



Source: APRA statistics, Shaw and Partners

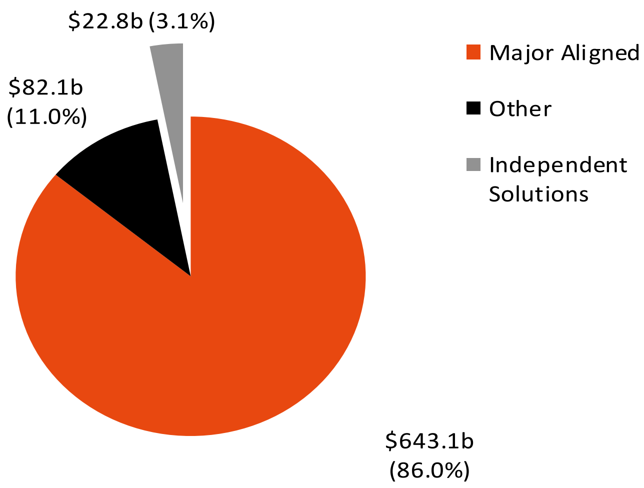
MGP participates and is exposed to the SMSF growth in accounts and assets whereby individuals who have larger account balances than the average retail fund and typically engage through financial intermediaries, who wish to engage in investment decisions.

Intermediaries including advisers and accountants are convinced that the use of a platform is appropriate for SMSF as it facilitates consolidated reporting and tracking of investments. With a growing regulatory presence in wealth management, non-aligned platforms give clients greater choice, whilst remaining within the regulatory framework.

2. Independents to benefit from a structural shift from aligned offerings:

The structural industry tailwinds are at the infancy of the growth phase, with independent offerings winning market share. The independents account for ~3% of the ~$750b platform market, however winning 29% on net flows.

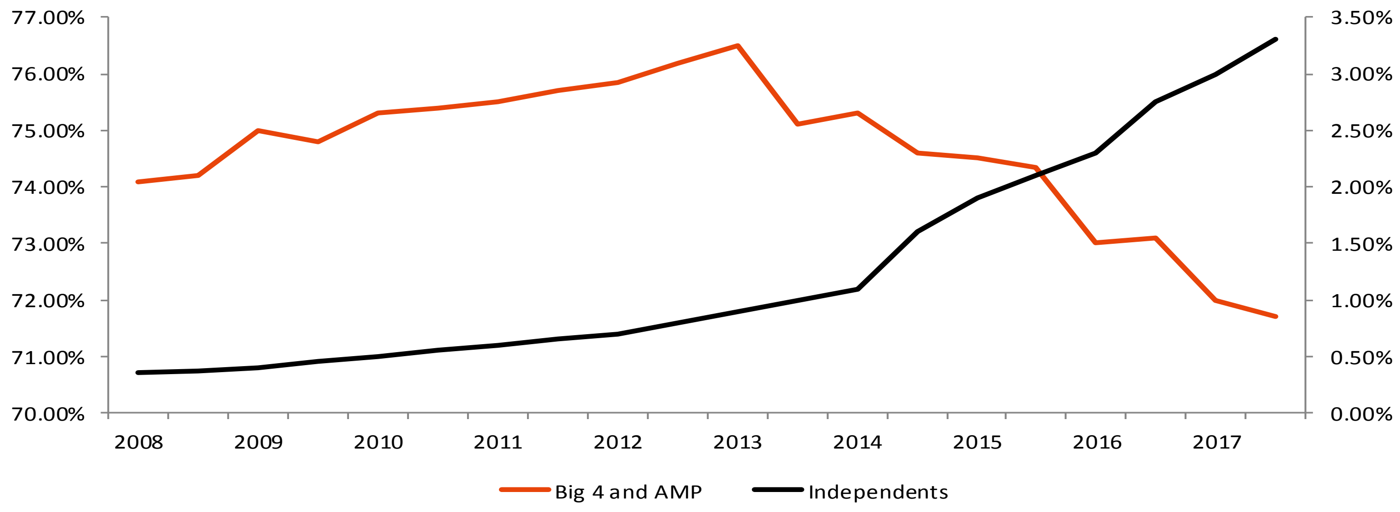
Figure 18: Platform market ~$750b with independents accounting for 3.1%



Source: Strategic Insights March 2017, Shaw and Partners

As we show in Figure 19 independents are winning from the large aligned institutional offerings.

Figure 19: Big 4 Banks and AMP (LHS) vs Independents (RHS) market share



Source: Strategic Insights, Shaw and Partners

We notice an inflection point around 2013 as independents benefit from:

- They can provide more nimble technology offerings that are more responsive and tailored to advisers demands relative to large institutions;
- Institutional offerings have legacy issues slowing down innovation;
- Competitive pricing relative to banks in post FOFA world (inflection point in 2013; Figure 19);
- Growth in managed accounts; see sub-section 3;
- Introduction of FOFA, leading to rise of the independent financial adviser; and
- Stockbrokers transforming businesses into wealth management businesses.

3. Managed Accounts benefits and where MGP differentiate

The benefits of operating under a SMA model:

- Investors: the underlying securities within the portfolio are held in their own name, portfolio holdings are disclosed, fee transparency, portfolio preferences can be accommodated, and tax management is improved.
- Advisers: the ability to service a large number of low-balance, low-touch clients without the administrative and compliance overhang, i.e. less time spent on corporate actions, tax and performance reporting.
- Asset manager: provide another avenue for fund flow and provide a funds management structure without a back or middle office.

MGP has a differentiated offering to its platform peers:
The main unique difference we can categorise for MGP is that it provides managed discretionary account (MDA) solutions, as opposed to an investment administration platform provider. We outline the key differentiators below:

#1: MGP provides customised managed account solutions, not a software product or "platform".
MGP will work with individual firms from the very early stages of implementing a managed accounts solution. Initially, an appreciation is built for the business and its financial advice model, leading to guidance on the most appropriate solution. Once a solution is agreed upon, MGP's team go about implementation – this involves using scalable but customisable software, documentation and processes, undertaking due diligence on the selected underlying managers, establishing mandates with the underlying managers, providing guidance on the implementation of an investment committee and necessary governance structure, and configuring the technology, portfolio administration, portfolio modelling and custody offering into a solution. This process typically takes between 1-12 months with MGP targeting 2-3 months.

#2: Truly product agnostic
MGP's business model means that it completely independent and does not have any affiliation with any product manufacturer nor is it positioned to gain from directing clients into particular products.

4. Regulation opportunity for MDAs

MDAs define a legal structure that enables a financial adviser to make investment decisions within a defined mandate, without the need for approval on a trade by trade basis – similar to an institutional manager's mandate. Currently, MDA providers can legally operate under an AFS license authorization to offer MDA services for retail investors, or alternatively, operate under a limited MDA license, which allows advisers to manage portfolios on platforms without the need to issue a record of advice (RoA) for each "transaction".

ASIC announced some changes to the MDA regime in late September 2016, with new limited MDA arrangements banned and existing limited MDA arrangements needing to transition to complying MDA or alternative arrangements within two years, in addition to other amendments made to bring the MDA regime more in-line with the core philosophy of the future of financial advice reforms (FOFA) i.e. more disclosure, greater transparency and increased level of professionalism required by advisers.

Some of those advisory firms using a Limited MDA arrangement will likely seek a MDA Provider, such as MGP, who will allow the advisory firm to retain responsibility for portfolio construction and investment decision making but their FUA will sit on platform for administration, custody and compliance servicing. It is difficult to quantify the significance of this opportunity because the market is not aware of the numbers of firms or FUA serviced by firms using a limited MDA arrangement.

Some market participants had expected ASIC to implement net tangible asset (NTA) requirements for MDA providers. However, indications are that these will be implemented in two years (as ASIC gathers more information about who has been operating under a limited MDA arrangement), the NTA requirements are shown in Figure 4.

Figure 20: Potential NTA requirements for MDA operators (ASIC RG 179)

Net tangible assets (NTA) requirement	MDA operators that do not provide custodial and depository services must hold at all times minimum NTA of the greater of: (a) $150,000; (b) 0.5% of the average value of all of the client's portfolio assets of the MDAs you operate up to $5 million NTA; or (c) 10% of your average MDA operator revenue with no maximum NTA. MDA operators that provide custodial and depository services must hold at all times minimum NTA of the greater of: (a) $10 million; (b) 10% of your average MDA operator revenue with no maximum NTA. Note: See proposals C3–C4 for further information about the proposed financial requirements for external MDA custodians and MDA operators that provide custodial and depository services.

Source: ASIC

This is a potentially significant opportunity for MGP. If smaller MDA Providers (small licensees and practices) are not able to fulfil the capital requirements then they will need to partner with a licensed MDA provider and administrator. Similar to the those firms operating under the Limited MDA arrangement, this will allow them to retain responsibility for portfolio construction and investment decision making but will their FUA will sit on platform for administration, custody and compliance servicing. Currently there are approximately 190 MDA Providers according to ASIC, though this will likely increase as some of those firms operating under a Limited MDA arrangement will obtain the authorisations to be a MDA Provider

Company Overview

MGP: is a managed discretionary accounts (MDA) and superannuation solutions provider, which is well placed to benefit from industry tailwinds driven by the changing financial advice regulatory environment, shifting industry dynamics and growing awareness of the benefits of using separately managed accounts (SMAs).

MGP is somewhat unique in terms of its “investment platform” peer group as it has characteristics that differentiate it from the likes of HUB24 (HUB), Praemium (PPS) and Netwealth.

1. MGP provides customised managed account solutions, not an off-the-shelf software product or “platform”.
2. MGP doesn’t play any part with trade execution.
3. The open-architecture offering has the ability to handle all asset classes and levels of liquidity.
4. The offering is truly product-agnostic.

Linear: Linear Platform solutions provide a technology and administration system upon which users can access domestic and global investment markets construct their own product offerings, report to a range of stakeholders and manage crucial elements of their financial services business.

Linear’s offering can be categorized into three core segments:

1. Retail Platform Administration: provides financial intermediaries and clients to hold and administer a range of financial investment products. Also provides reporting on current financial positions and performances of investments.
2. Wholesale Institutional Solutions: Similar to platform administration, however is a product aimed for users with higher requirements relative to retail focused solutions (i.e. multi-asset / multi-currency).
3. Portfolio Administration (PAS): provides clients with an investment and tax reporting service to independent financial advisory groups and private wealth advisors. The fees generated are on a per account basis as opposed to a bps charge per FUA on platform. Depending on the nominal amount of PAS accounts held per firm.

Figure 21: Combined entity product offering

Capability	managedaccounts holdingslimited	LINEAR	Combined Group	Description	Distribution Channels
Portfolio Administration (PAS)[1]	✗	✓	✓	• Investment and tax reporting service	• IFAs • Private Wealth / Stockbrokers
Super	✓	✓	✓	• Non-unitised superannuation administration	• IFAs • Private Wealth / Stockbrokers • Investment Managers • Institutions
Wrap[2]	✗	✗	✗	• Platforms offering access to approved investment products with reporting	• IFAs • Private Wealth / Stockbrokers • Investment Managers
SMA	✓	✓	✓	• Provision of model portfolios where investor owns underlying asset, and reporting	• IFAs • Private Wealth / Stockbrokers • Investment Managers
Managed Accounts[3]	✓	✗	✓	• Platform with discretion over investments and trade execution, and reporting	• IFAs • Private Wealth / Stockbrokers • Investment Managers
Institutional Solutions	✗	✓	✓	• Sophisticated multi-asset and multi-currency management and reporting solution	• Investment Managers • Institutional - Family Office / Private Bank / Industry Funds & other platforms

Source: Company data, Shaw and Partners

Revenue Generation

The combined entity will have five key revenue avenues – 1) Implementation revenue (one-off), Retail administration fees (FUA-based), 3) Wholesale administration fee (FUA-based), 4) Portfolio Administration fees (Per account basis); and 5) Cash margin (% of cash holdings).

1. **Implementation revenue:** an implementation fee is charged for an MDA solution ($10k for Superannuation Solution). The revenue is lumpy and depends on a number of factors – i) number of memorandum of understandings (MoU) executed, performance of MGP sales team, and changing industry and regulatory environment.

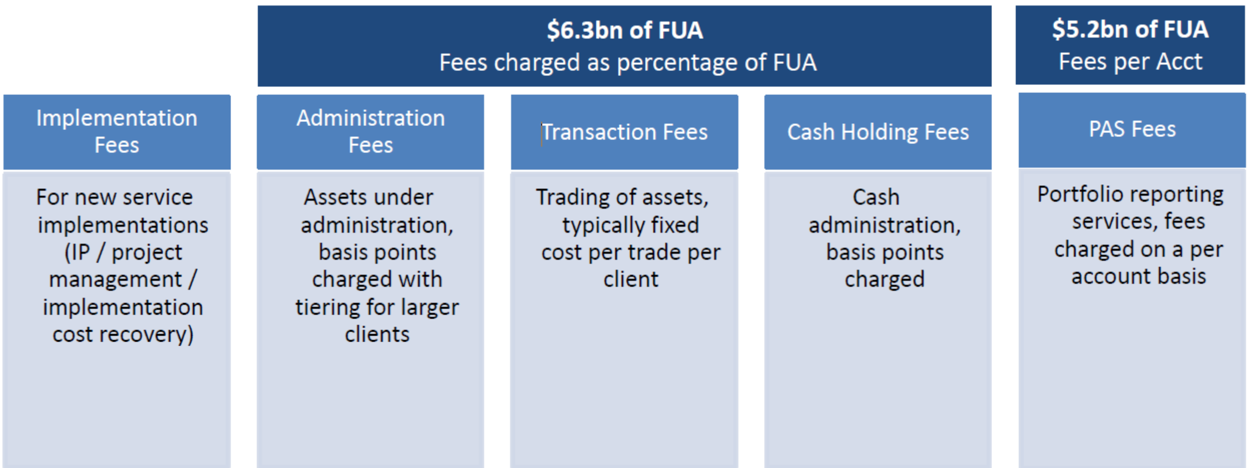
2. **Retail administration fees:** FUA based fees charged for administering solutions for clients, which we forecast to be ~28bps p.a.

3. **Wholesale administration fees:** A basis point charge on FUA is generated for Linear's institutional solutions offering to large institutional private bank ($2.1b FUA).

4. **Portfolio administration fees:** Depending on the nominal amount of PAS accounts held per firm.

5. **Cash margin:** MGP earn a cash margin on the percentage of cash holdings which is typically 10% of FUA held.

Figure 22: Revenue generation summary



Source: Company data, Shaw and Partners

Investment Risks

Regulation – we believe that a key driver of MGP's future growth is the potential introduction of NTA capital requirements for MDA operators. There is a possibility that these will be postponed, or may not even eventuate, thereby diminishing the attractiveness of the investment thesis. That said, increasing regulatory requirements for advisory groups is a notable tailwind for MGP.

Integration - Assuming the Linear acquisition completes, substantial effort and cost will be required to integrate the two businesses. The anticipated benefits arising from the acquisition could either not be achieved or achieved but delayed. Anticipated benefits include the cost and revenue synergies

Competition – the investment administration industry is highly fragmented in Australia with the industry players ranging from the big four banks through to small unlisted players. We note that a new business founded in 2016, MA Operator, has a very similar business model to MGP and offers similar services. There is a risk that competitive pressures are greater than we expect and our forecasts for the addition of advisory firms in future are not met.

Pricing pressure – we think that it is probable that the pricing of investment administration services will evolve from a fee-based structure to a flat rate. This would impact our forecasts for MGP if this were to happen in the foreseeable future

Loss of key clients - The group has client relationships with a large number of firms in Australia. The group's revenue is dependent in part upon maintenance and development of these client relationships. Consequently, loss or diminution of these relationships may adversely affect the group's financial performance.

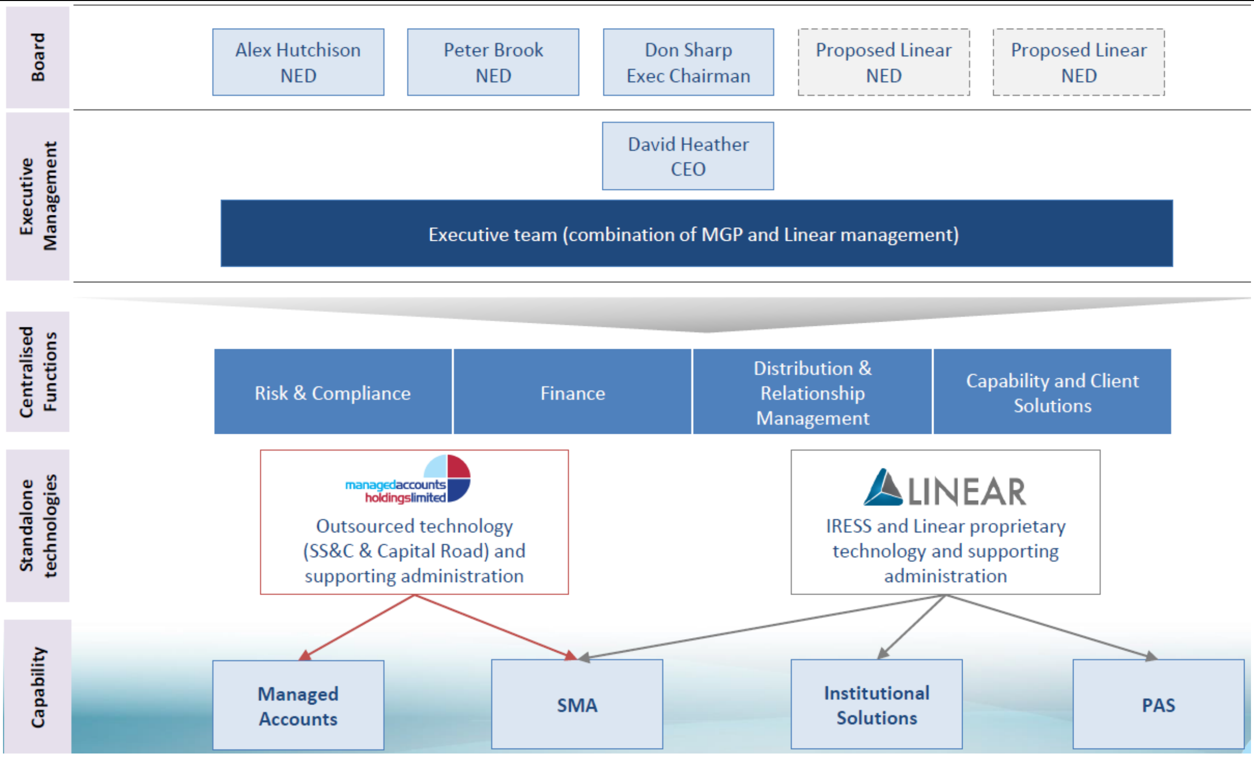
Investment risk – There is a risk that the merger and cost savings projections and forecasts may not be realised or realised in the projection time frame. MGP does not guarantee any particular rate of return for the performance of MGP.

Key Management

David Heather Chief Executive Officer – Has over 28 years in the Australia financial services industry. David previously held executive roles at Permanent Trustee, Trust Company and Aegis in sales and distribution, relationship management, custody, operations, information technology, investment administration and product development with a focus on managed accounts since 2002. Joined Managed Accounts in 2008 as Head of Distribution and in 2014 was appointed Chief Executive Officer

Tony Nejasmic Head of Distribution and Marketing – Has over 25years experience in the Australian financial services industry. Tony previously held senior roles covering sales, distribution and relationship management including 16 years at Macquarie Bank, where he significantly contributed to the Macquarie Wrap platform FUA growing to $60b.

Figure 23: Post Merger Structure



Source: Company Data

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