ShawandPartners
an EFG company

HUB24 (HUB)

Rating: Buy | Risk: High | Price Target: $26.13

Revenue for show, operating leverage for a pro

Key Information

Current Price ($ps)	23.15
12m Target Price ($ps)	26.13
52 Week Range ($ps)	6.40 - 26.86
Target Price Upside (%)	12.9%
TSR (%)	13.3%
Reporting Currency	AUD
Market Cap ($m)	1,550.0
Sector	Financials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0.09%

Fundamentals

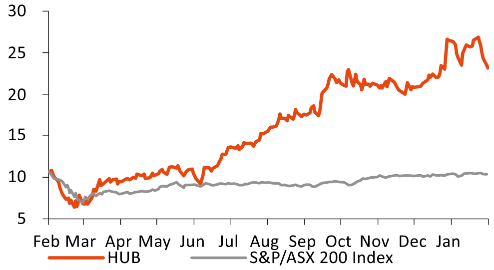
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales ($m)	110.2	123.6	161.3	194.0
NPAT ($m)	10.1	17.1	28.8	39.1
EPS (cps)	15.7	25.0	41.0	55.6
EPS Growth (%)	47.2%	59.3%	63.7%	35.7%
DPS (cps) (AUD)	7.0	8.6	12.3	16.8
Franking (%)	50%	50%	100%	100%

Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	59.2	92.5	56.5	41.6
EV/EBITDA (x)	61.4	41.0	26.8	20.7
Div Yield (%)	0.8%	0.4%	0.5%	0.7%
Payout Ratio (%)	44.6%	34.4%	30.1%	30.1%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(12.2%)	8.9%	6.4%	113.7%
Absolute (%)	(12.5%)	11.0%	9.7%	108.7%
Benchmark (%)	(0.3%)	2.1%	3.3%	(5.0%)



Price performance indexed to 100 Source:

Major Shareholders

ECP Asset Management Pty Ltd.	9.2%
Thorney Investment Group Australia Pty L	8.6%
Hyperion Asset Management Ltd.	8.0%
Bennelong Australian Equity Partners Pty	7.3%
AMP Capital Investors Ltd.	5.2%

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Event

HUB has delivered a 1H21 result that was ahead of Shaw expectations across several key metrics. HUB continues to prove that its business model is capable of delivering material operating leverage as it accelerates towards significant market share and scale.

Highlights

- **Stellar result on several fronts** – HUB has delivered an outstanding 1H21 result that impressed across revenues and margins, alongside a FUA target upgrade. Results for the half at group level included revenue of $62.1m (+17.8% YoY / +10.2% on Shaw), gross profit of $36.4m (+29.5% YoY / +3.7% on Shaw) and EBITDA of $16.4m (+40.2% YoY / +1.8% on Shaw). We have materially upgraded our outlook on EBITDA, net flows and FUA.
- **Net inflows momentum accelerating into 3Q21** – HUB's 2Q21 net flows were a record $1.7bn (+36.7% YoY), pushing FUA to $22bn. With FUA now $24.0bn at 19 Feb, Shaw estimate net flows of $1.6bn over the incomplete period. 3Q21 flows to date are already close to 2Q21's record in just ~7 out of ~12 weeks for the quarter. If this wasn't already impressive enough, the uplift did not include any contribution from the Clearview transition which is expected to add ~$1.3bn imminently. We conservatively estimate a record $3.0bn in net flows for 3Q21, which includes the full transition of Clearview.
- **2H21 FUA guidance points to continued strength** – HUB have provided an upgraded FUA target for FY22 of ~$32bn - $38bn (pre-acquisition / HUB standalone on Shaw estimates). This represents a chunky upgrade from the previous FY22e target of $28bn - $32bn (+14% to +19% across the range). Further to the upgrade, we note HUB management have a track record of setting conservative FUA guidance and beating that guidance. We conservatively estimate FUA towards the top end of guidance at $36.1bn for FY22e.
- **Margins softening as anticipated** – The all-important revenue margins for 1H21 came in at 44bps, down 5bps over the half and slightly lower than Shaw estimates. The reduction was due to growing account sizes and RBA cash rate cuts, being partially offset by increased trading volumes. We forecast further compression as platform administration fees are subject to further scrutiny, account sizes creep into lower margin brackets and competitive pressures remain. However, we see HUB's platform margins compressing at a slower rate than market due to its ability to strategically tailor fees, enhanced capabilities from acquisitions and positive client perception stemming from HUB's recent shift into 1st place in platform rankings (*Adviser Ratings*).
- **Trio of acquisitions progressing towards completion** – PARS has now completed and is in the process of being integrated into the HUB business, bringing $9.3bn in non-custody FUA and associated IP. HUB's partial takeover of Easton is now unconditional, with the offer to acquire shares closing yesterday and the parallel divestment of Paragem complete. Lastly, the acquisition to acquire Xplore by way of Scheme of Arrangement is nearing the final stages, with a targeted implementation date of 2 March. We forecast EBITDA synergies of $10m from FY24e and incremental benefits to HUB post-completion.
- **Catalysts remain at the fore** – We highlight numerous catalysts for HUB, including completion and integration of Xplore which brings $16.6bn in FUA, the agreement with IOOF expected to deliver benefits from 4Q21, net flow acceleration into FY21e, final transition of Clearview (~$1.3bn in FUA) and industry consolidation opportunities – Shaw released a note discussing the potential sales of AMP North and BT Panorama on 15 Feb.
- **Key changes** – Upgrades to operating EBITDA of 3.0%, 9.9% and 9.1% across FY21e - FY23e respectively, and FUA upgrades of 13.3%, 12.8% and 10.6% across FY21e - FY23e respectively. Our Price Target increases 6.7% to $26.13.

Recommendation

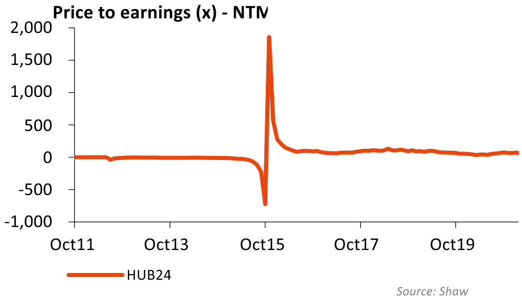
HUB is delivering scale and displacing incumbents whilst delivering expanding EBITDA margins. We anticipate HUB to continue taking an outsized share of net flows over the next year and into the longer term. Our Price Target increases from $24.50 to $26.13 (+6.7%) with a 12-month TSR of 13.3%. We therefore re-iterate our Buy recommendation.

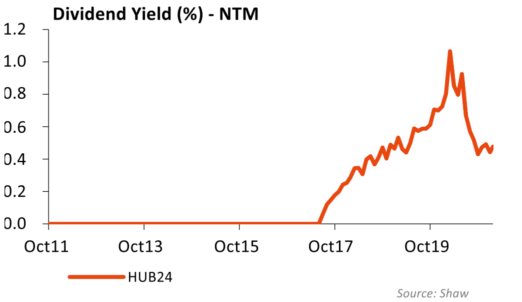
HUB24
Financials
Diversified Financials
FactSet: HUB-AU / Bloomberg: HUB AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	23.15
Target Price ($ps)	26.13
52 Week Range ($ps)	6.40 - 26.86
Shares on Issue (m)	67.0
Market Cap ($m)	1,550.0
Enterprise Value ($m)	1,514.3
TSR (%)	13.3%

Company Description

HUB24 Ltd. engages in the provision of investment and superannuation portfolio administration and licensee services. It operates through the following segments: Platform, Licensee Services, Information Technology (IT) Services, and Corporate. The Platform segment develops and provides investment and superannuation platform services to financial advisers, stockbrokers and accountants, and its clients. The Licensee Services segment includes the provision of compliance, software, education, and business support to financial advisers. The IT Services segment the application and technology products for the financial services sector. The company was founded on April 13, 2007 and is headquartered in Sydney, Australia.





Financial Year End: 30 June

Investment Summary (AUD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	**11.3**	**12.8**	**4.4**	**41.0**	**55.6**
EPS (Underlying) (cps)	**10.7**	**15.7**	**25.0**	**41.0**	**55.6**
EPS (Underlying) Growth (%)	22.9%	47.2%	59.3%	63.7%	35.7%
PE (Underlying) (x)	**nm**	**59.2**	**92.5**	**56.5**	**41.6**
EV / EBIT (x)	**119.2**	**78.3**	**48.3**	**29.8**	**22.4**
EV / EBITDA (x)	**99.3**	**61.4**	**41.0**	**26.8**	**20.7**
DPS (cps) (AUD)	4.6	7.0	8.6	12.3	16.8
Dividend Yield (%)	0.4%	0.8%	0.4%	0.5%	0.7%
Franking (%)	0%	50%	50%	100%	100%
Payout Ratio (%)	43.1%	44.6%	34.4%	30.1%	30.1%

Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	96.3	110.2	123.6	161.3	194.0
Sales Growth (%)	*14.7%*	*14.4%*	*12.2%*	*30.5%*	*20.3%*
EBITDA	**15.4**	**24.7**	**36.9**	**55.4**	**69.9**
EBITDA Margin (%)	*16.0%*	*22.4%*	*29.9%*	*34.3%*	*36.0%*
Depreciation & Amortisation	(2.6)	(5.3)	(5.6)	(5.5)	(5.3)
EBIT	**12.8**	**19.4**	**31.3**	**49.9**	**64.7**
EBIT Margin (%)	*13.3%*	*17.6%*	*25.4%*	*30.9%*	*33.3%*
Net Interest	0.0	(0.2)	(0.2)	(0.2)	(0.2)
Pretax Profit	10.4	14.7	24.4	40.6	55.0
Tax	(3.7)	(4.6)	(7.0)	(10.8)	(14.9)
Tax Rate (%)	*(35.2%)*	*(31.4%)*	*(28.9%)*	*(26.6%)*	*(27.1%)*
NPAT Underlying	**6.8**	**10.1**	**17.1**	**28.8**	**39.1**
Significant Items	0.4	(1.8)	(14.4)	0.0	0.0
NPAT Reported	**7.2**	**8.2**	**2.7**	**28.8**	**39.1**

Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	12.8	19.4	31.3	49.9	64.7
Tax Paid	(3.7)	(4.6)	(7.0)	(10.8)	(14.9)
Net Interest	0.6	0.4	0.0	(0.8)	(0.8)
Change in Working Capital	(0.4)	7.8	0.5	0.3	1.0
Depreciation & Amortisation	2.6	5.3	5.6	5.5	5.3
Other	(0.4)	(3.1)	(2.5)	(5.3)	(4.3)
Operating Cashflow	**11.6**	**25.3**	**27.9**	**38.8**	**50.8**
Capex	(0.5)	(0.5)	(14.7)	(2.0)	(2.0)
Acquisitions and Investments	(0.4)	(0.5)	(10.0)	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	(6.9)	(6.7)	0.0	0.0	0.0
Investing Cashflow	**(7.8)**	**(7.7)**	**(24.7)**	**(2.0)**	**(2.0)**
Equity Raised / Bought Back	1.1	1.2	100.0	0.0	0.0
Dividends Paid	(3.4)	(3.8)	(4.9)	(7.5)	(10.4)
Change in Debt	0.0	0.0	12.5	0.0	0.0
Other	0.0	0.4	(96.6)	0.0	0.0
Financing Cashflow	**(2.3)**	**(2.2)**	**11.0**	**(7.5)**	**(10.4)**
Net Change in Cash	**1.5**	**15.3**	**14.2**	**29.3**	**38.4**

Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	18.5	33.8	48.2	77.5	115.9
Accounts Receivable	7.6	10.0	9.0	11.6	13.7
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.8	1.8	5.5	6.1	6.3
PPE	2.0	1.7	1.4	1.4	1.4
Goodwill & Intangibles	37.1	40.0	83.4	79.9	76.7
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	11.7	10.5	64.8	64.8	64.8
Total Assets	**77.5**	**97.8**	**212.4**	**241.4**	**279.0**
Accounts Payable	3.4	5.4	4.4	6.0	6.9
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	12.5	12.5	12.5
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	9.2	17.6	17.3	19.2	21.7
Total Liabilities	**12.6**	**23.0**	**34.2**	**37.7**	**41.1**

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	11.0%	14.4%	13.5%	15.1%	17.7%
Gearing (%)	(39.7%)	(82.4%)	(25.1%)	(46.8%)	(76.9%)
Net Debt / EBITDA (x)	(1.2)	(1.4)	(1.0)	(1.2)	(1.5)

1H21 RESULT VS. SHAW EXPECTATIONS, CONSENSUS AND PCP

We provide the following comparison of HUB's 1H21 results versus (1) Shaw estimates (2) Consensus guidance and (3) PCP:

Figure 1: 1H21 result versus Shaw expectations

		1H21							1H20		
		Shaw estimates				Consensus			Actual (pcp)		
Metric	Unit	Shaw	Actual	*% diff*	*$ diff*	Cons.	*% diff*	*$ diff*	*Actual*	*%⊿*	*$⊿*
Revenue	$m	$56.4m	$62.1m	*10.2%*	*$5.7m*	$61.3m	*1.4%*	*$0.8m*	$52.7m	*17.8%*	*$9.4m*
Underlying EBITDA	**$m**	**$16.1m**	**$16.4m**	***1.8%***	***$0.3m***	**$15.4m**	***6.8%***	***$1.1m***	**$11.7m**	***40.2%***	***$4.7m***
Underlying NPAT	$m	$8.7m	$7.5m	*(14.1%)*	*($1.2m)*	$8.0m	*(6.3%)*	*($0.5m)*	$5.4m	*38.1%*	*$2.1m*
Platform rev. margin	bps	46.1bps	44.0bps	*(4.6%)*	*(2.1bps)*	na	*na*	*na*	49.2bps	*(10.5%)*	*(5.2bps)*

Source: Shaw and Partners analysis, FactSet consensus

ESTIMATE REVISIONS

As a result of the latest 1H21 result, we have revisited our estimates and highlight changes as follows:

Figure 2: Estimate revisions post-1H21 result

		FY20a	FY21e			FY22e			FY23e		
Metric	Unit	Actual	Old	New	*Change*	Old	New	*Change*	Old	New	*Change*
Revenue	$m	$110.2m	$122.3m	$123.6m	*1.1%*	$158.0m	$161.3m	*2.1%*	$192.1m	$194.0m	*1.0%*
Underlying EBITDA	**$m**	**$24.7m**	**$35.8m**	**$36.9m**	***3.0%***	**$50.4m**	**$55.4m**	***9.9%***	**$64.1m**	**$69.9m**	***9.1%***
Underlying NPAT	$m	$10.1m	$18.0m	$17.1m	*(4.9%)*	$27.6m	$28.8m	*4.3%*	$37.3m	$39.1m	*5.0%*
Underlying EPS	cps	15.7cps	25.5cps	25.0cps	*(0.5cps)*	39.3cps	41.0cps	*1.7cps*	53.0cps	55.6cps	*2.6cps*
Net flows (HUB)	**$bn**	**$4.9bn**	**$5.3bn**	**$7.4bn**	***40.0%***	**$6.3bn**	**$8.0bn**	***27.6%***	**$7.2bn**	**$8.5bn**	***19.1%***
FUA (HUB)	$bn	$17.2bn	$23.9bn	$27.1bn	*13.3%*	$32.0bn	$36.1bn	*12.8%*	$41.4bn	$45.8bn	*10.6%*
Platform rev. margin	bps	49.4bps	46.2bps	42.9bps	*(3.2bps)*	42.7bps	38.6bps	*(4.1bps)*	40.7bps	36.8bps	*(3.9bps)*

Source: Shaw and Partners analysis

In particular we note the following in relation to our estimates:

- Revenues in the 2H21e are expected to be largely in line with 1H21 as a result of the divestment of Paragem which contributed $15.0m in revenue for 1H21.
- Shaw estimates platform revenue rising from $43.7m in 1H21 to $58.1m in 2H21e largely due to stronger than anticipated net flows and market movements.
- Growth in FUA is outpacing our estimates at a greater rate than platform revenue margins are declining, resulting in upgrades to platform and group revenue.
- Platform EBITDA margins of 39.7% exceeded Shaw estimates, and have caused us to upgrade our outlook on EBITDA margins in subsequent periods to 39.8% in FY21e, 41.3% in FY22e and 42.8% in FY23e (excluding PARS and Xplore).

VALUATION

As a result of our estimate changes and utilising our discounted cash flow (DCF) model as our primary valuation methodology, we **upgrade our 12-month Price Target to $26.13 per share from our prior Price Target of $24.50 per share (+6.7%)**.

Figure 3: Price Target changes

Variable	
Previous Valuation	$24.50
New Valuation	$26.13
Change	**6.7%**

Methodology	Output	Weight	Contribution
DCF	$26.13	100%	$26.13
Total			**$26.13**

Source: Shaw and Partners analysis

KEY ASSUMPTIONS AND FINANCIALS

In general, we model HUB on a half-by-half basis, however we model FUA on a quarterly basis. We utilise several drivers based upon segment performance to generate our financial forecasts. We model HUB over 10 financial years and see our assumptions in general as being conservative, particularly in the context of operational efficiencies, margin improvements and further M&A consolidation opportunities.

Figure 4: Key assumptions and forecasts

Key assumptions																					
Key drivers and outputs ($m)	FY15	FY16	FY17	1H18a	2H18a	FY18	1H19a	2H19a	FY19	1H20a	2H20a	FY20	1H21a	2H21e	FY21e	1H22e	2H22e	FY22e	1H23e	2H23e	FY23e
Platform revenue margin (HUB)	0.63%	0.61%	0.60%	0.60%	0.57%	0.57%	0.55%	0.51%	0.51%	0.49%	0.49%	0.49%	0.44%	0.43%	0.43%	0.41%	0.39%	0.39%	0.38%	0.37%	0.37%
FUA (HUB) ($bn)	1.7	3.3	5.5	6.9	8.3	8.3	10.0	12.9	12.9	15.8	17.2	17.2	22.0	27.1	27.1	31.0	36.1	36.1	41.1	45.8	45.8
Operating revenue																					
Platform	8.1	15.4	26.3	18.8	20.9	39.7	25.5	28.6	54.1	35.1	39.2	74.3	43.8	51.4	95.2	57.1	64.7	121.8	72.1	78.5	150.5
Licensee (Paragem)	20.2	27.3	30.8	17.3	18.4	35.8	18.3	17.0	35.2	14.6	15.0	29.6	15.0	n/a	15.0	n/a	n/a	n/a	n/a	n/a	n/a
IT Services (Agility)	n/a	n/a	4.7	4.5	4.0	8.5	3.5	3.5	7.0	3.1	3.3	6.4	3.3	3.4	6.7	3.5	3.6	7.1	3.7	3.8	7.5
HUB operating revenue	28.3	42.7	61.9	40.6	43.3	83.9	47.2	49.1	96.3	52.7	57.5	110.2	62.1	54.8	116.9	60.6	68.3	128.9	75.8	82.3	158.1
Acquisitions operating revenue	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.7	6.7	15.4	16.9	32.4	17.6	18.3	36.0
PF operating revenue	28.3	42.7	61.9	40.6	43.3	83.9	47.2	49.1	96.3	52.7	57.5	110.2	62.1	61.5	123.6	76.1	85.2	161.3	93.4	100.6	194.0
Underlying EBITDA																					
Platform	(0.2)	(0.6)	5.1	5.0	6.9	11.9	8.0	10.1	18.0	13.8	14.9	28.7	17.4	20.5	37.9	23.6	26.8	50.3	30.8	33.7	64.5
Licensee (Paragem)	0.1	0.2	0.2	0.1	0.1	0.2	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.5)	(0.4)	n/a	(0.4)	n/a	n/a	n/a	n/a	n/a	n/a
IT Services (Agility)	n/a	n/a	0.3	0.2	(0.2)	0.0	(0.2)	(0.3)	(0.5)	(0.6)	(0.3)	(0.9)	0.9	(0.3)	0.6	1.0	(0.2)	0.8	1.1	(0.2)	0.9
Corporate	(0.3)	(0.5)	(0.5)	(0.1)	n/a	(0.1)	(0.8)	(1.0)	(1.8)	(1.3)	(1.3)	(2.6)	(1.4)	(0.8)	(2.2)	(1.0)	(1.1)	(2.1)	(1.3)	(1.4)	(2.7)
HUB underlying EBITDA	(0.4)	(0.8)	5.1	5.1	6.8	11.9	6.8	8.6	15.4	11.7	13.0	24.7	16.5	19.4	35.9	23.6	25.5	49.0	30.6	32.1	62.7
Acquisitions underlying EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.0	1.0	3.0	3.3	6.4	3.6	3.7	7.3
Acquisition synergies	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
PF underlying EBITDA	(0.4)	(0.8)	5.1	5.1	6.8	11.9	6.8	8.6	15.4	11.7	13.0	24.7	16.5	20.4	36.9	26.6	28.8	55.4	34.1	35.8	69.9
Financials - PF ($m)																					
Operating revenue	28.3	42.7	61.9	40.6	43.3	83.9	47.2	49.1	96.3	52.7	57.5	110.2	62.1	61.5	123.6	76.1	85.2	161.3	93.4	100.6	194.0
Underlying EBITDA	(0.4)	(0.8)	5.1	5.1	6.8	11.9	6.8	8.6	15.4	11.7	13.0	24.7	16.5	20.4	36.9	26.6	28.8	55.4	34.1	35.8	69.9
Underlying NPAT	(5.4)	(1.4)	2.3	2.2	3.2	5.4	3.1	3.7	6.8	5.4	4.6	10.1	7.5	9.6	17.1	13.8	15.0	28.8	19.1	20.0	39.1
Statutory NPAT	(6.5)	(1.2)	18.9	2.3	5.1	7.4	3.2	4.0	7.2	6.0	2.2	8.2	6.1	(3.4)	2.7	13.8	15.0	28.8	19.1	20.0	39.1
Operating cash flow	(5.2)	1.3	4.1	4.6	7.7	12.3	3.4	8.2	11.6	9.9	15.3	25.3	10.5	17.4	27.9	14.9	23.9	38.8	20.5	30.3	50.8
Net cash flow	(1.7)	(2.8)	1.6	2.8	3.3	6.1	(1.5)	3.0	1.5	3.5	11.9	15.3	51.5	(37.3)	14.2	10.3	19.0	29.3	14.4	24.0	38.4
Contributed equity	82.1	83.1	89.1	95.5	96.2	96.2	97.4	98.2	98.2	99.8	100.1	100.1	174.3	204.3	204.3	204.3	204.3	204.3	204.3	204.3	204.3
Total equity	17.9	19.0	43.6	51.5	57.9	57.9	60.5	64.9	64.9	71.4	74.8	74.8	153.0	178.2	178.2	190.7	203.7	203.7	220.8	237.9	237.9
Financial ratios - PF (%)																					
Operating revenue growth (YoY)	n/a	51%	45%	52%	23%	36%	16%	13%	15%	12%	17%	14%	18%	7%	12%	23%	39%	31%	23%	18%	20%
Underlying EBITDA growth (YoY)	n/a	n/a	n/a	198%	102%	134%	33%	26%	29%	72%	50%	60%	41%	57%	50%	61%	41%	50%	28%	24%	26%
Underlying EBITDA margin	(1%)	(2%)	8%	13%	16%	14%	14%	18%	16%	22%	23%	22%	27%	33%	30%	35%	34%	34%	37%	36%	36%
Underlying NPAT margin	(19%)	(3%)	4%	5%	7%	6%	7%	7%	7%	10%	8%	9%	12%	16%	14%	18%	18%	18%	20%	20%	20%

Source: Shaw and Partners analysis, company data

KEY OBSERVATIONS

Platform revenues expand whilst margins soften

Platform revenue margins were 49bps in FY20, and have compressed to 5bps down to 44bps in 1H21. We estimate further compression in margins to 43bps in FY21e, 39bps in FY22e and 37bps in FY23e as a result of:

- Increasing account sizes, with administration fees declining as account balances creep up into incremental value buckets.
- Depressed cash margin fees as a result of lower cash balances, driven by lower cash rates (on the back of the RBA's November rate cut of 15bps) and deeper investment resulting from stronger equity markets.
- Moderation in transaction activity which in our view was elevated during Covid. We anticipate lower volatility and transaction activity in subsequent periods.

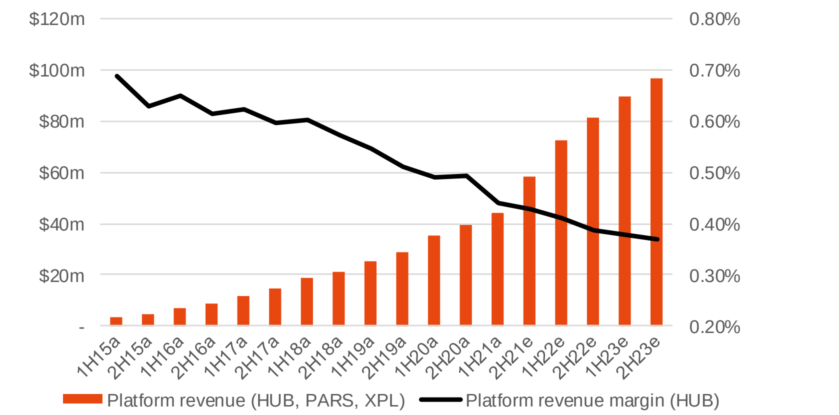
Despite platform margin compression, **we see HUB as well placed in comparison to its competitors in terms of stemming the rate of compression**. In contrast, NWL (not covered) are currently in the process of repricing their back book which saw the company guide toward softer second half administration fee revenue.

We see HUB's platform margins compressing at a slower rate than market or its competitors due to the following factors:

- HUB strategically tailors its platform fees in a bespoke manner, giving the company a higher degree of control over margins.
- Enhanced capabilities as a result of recent acquisitions, bolstering actual and perceived product utility.
- Recent shift into 1st place in platform rankings (*Adviser Ratings*) as an upsell opportunity for potential clients.

We note the platform segment will include PARS going forward, with a ~$0.26m revenue contribution and ~$0.1m EBITDA for the half, inferring annual revenue of ~$3.1m and annual EBITDA of ~$1.3m (factoring in a one-month contribution post-completion).

Figure 5: Platform revenue and margin



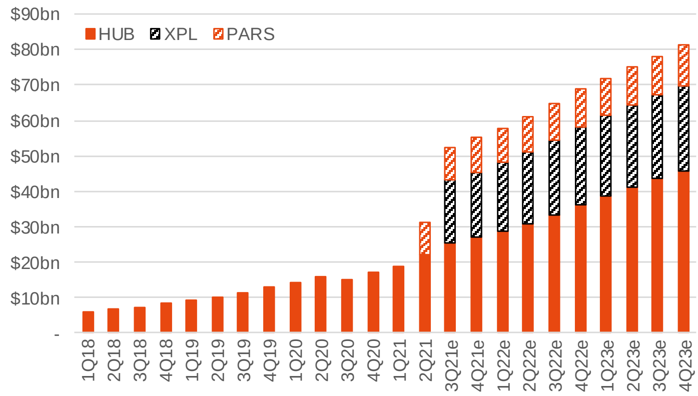
Source: Shaw and Partners analysis, company data

FUA guidance perhaps the most promising data point

Perhaps the most compelling data point from the half in our view was the custodial FUA guidance of $43bn - $49bn for FY22e.

- Assuming $10.8bn in custodial FUA for Xplore, **this infers a pre-acquisition / HUB standalone target of ~$32bn - $38bn, which is a promising upgrade from the previous FY22e target of $28bn - $32bn (+14% to +19% across the range).**
- Whilst equity markets have performed above market and likely HUB management expectations since the original FY22e target was given at FY20, our view is that net flows and pipeline are a major factor in the upgrade and accelerating.
- Further to the upgrade, we note that **HUB management have a track record of setting conservative FUA guidance and beating that guidance**.
- Several catalysts for a beat to guidance include stronger than expected flows from the IOOF agreement, large transitions and management's typical conservatism, which combine to give us a degree of confidence that FUA will reach the top end of guidance – **Shaw estimate $36.1bn on a like-for-like basis in FY22e**.

Figure 6: Quarterly closing FUA



Source: Shaw and Partners analysis, company data

FUA accelerating as net flows unleash momentum

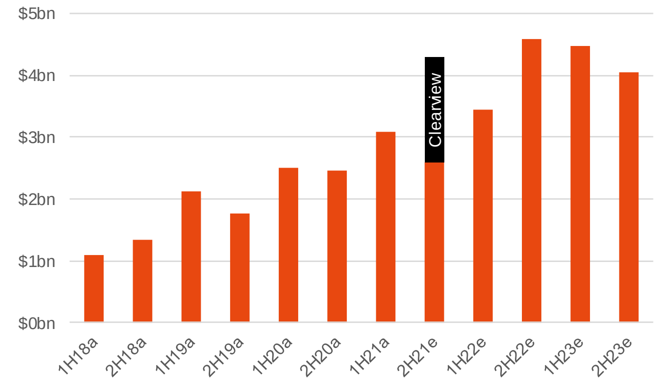
Custodial FUA increased from $22.0bn at last update (31 Dec 2020) to $24.0bn at 19 Feb 2021. **We estimate $1.6bn of the $2.0bn increase resulting from net flows** and the remainder in market movements.

- **This is nearly equal with 2Q21's record result for net flows of $1.7bn in just ~7 out of ~12 weeks for the quarter.**
- If this wasn't already impressive enough, the uplift did not include any contribution from the Clearview transition, which is expected to add ~$1.3bn imminently.
- Having regard to our view on net flow run rates, structural industry dynamics, opportunities to HUB as a result of recent acquisitions, potential FUA from IOOF and management's internal targets, we have upgraded our net flow and FUA estimates.
- **We conservatively estimate a record $3.0bn in net flows for 3Q21**, which includes the full transition of Clearview. Should HUB produce a result in line with our expectation, we believe HUB would deserve a re-rate from current levels.

Our estimates for **custodial net flows have been revised upwards 40.0%, 27.6% and 19.1% respectively across FY21e – FY23e, to $7.4bn, $8.0bn and $8.5bn** respectively.

Factoring in conservative views on market movements, this sees our **FUA estimates for FY21e – FY23e at $27.1bn, $36.1bn and $45.8bn respectively** (excluding acquisitions).

Figure 7: Net flows (by half)



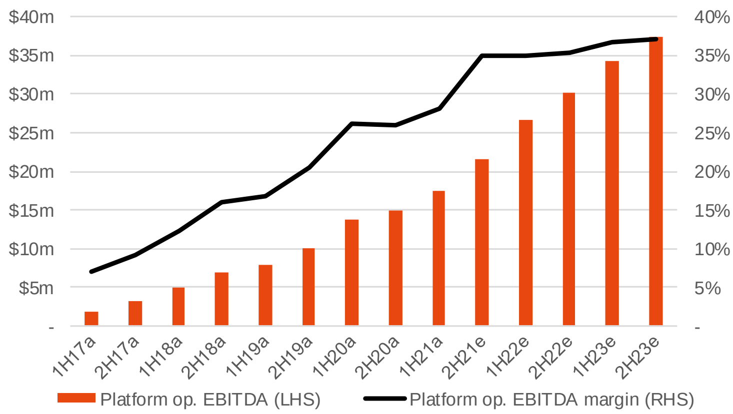
Source: Shaw and Partners analysis, company data

EBITDA margins gain pace as operating leverage is delivered

Operating leverage delivered by HUB continues to outpace Shaw, with platform EBITDA margins of 39.7% (+180bps HoH) and group EBITDA margins of 26.5% (+390bps HoH).

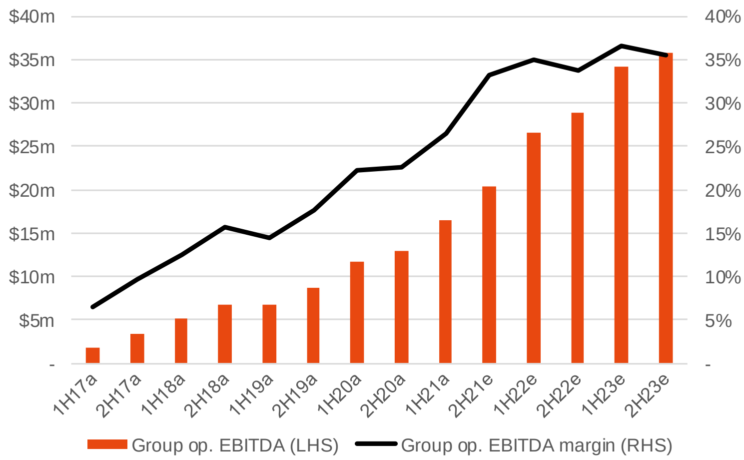
- We anticipate second half EBITDA margins softening slightly as PARS and Xplore are factored into the business.
- On a standalone HUB platform segment basis, we anticipate flat EBITDA margins in 2H21e, before further expansion to 41.3% in FY22e and 42.8% in FY23e.
- The core HUB business performance and less material contributions from recent acquisitions sees our **underlying EBITDA estimates revised up to $36.9m, $55.4m and $69.9m on an underlying basis across FY21e – FY23e respectively**.

Figure 8: Platform EBITDA and EBITDA margins



Source: Shaw and Partners analysis, company data

Figure 9: Group EBITDA and EBITDA margins



Source: Shaw and Partners analysis, company data

DOES HUB HAVE THE CAPABILITY OR APPETITE TO ACQUIRE NORTH OR PANORAMA?

In a note released on 15 January 2021, Shaw explored the acquisition capability of the two major independent platform players in relation to AMP North and BT Panorama's platforms.

We have undertaken scenario analysis across our Low, Mid and High valuation spectrums in order to ascertain our view on valuation for North and Panorama.

Our assumptions and resulting output are as follows:

Target	Scenario	Valuation methodology	Valuation output
North	Low	Avg. EV/FUA multiple on institutional transations	$1.0bn
	Mid	Avg. EV/profit multiple on institutional transactions	$1.7bn
	High	Avg. EV/profit +20% on institutional transactions	$2.1bn
Panorama	Low	Avg. EV/FUA multiple on platform trading levels	$1.5bn
	Mid	Avg. EV/profit multiple on institutional transactions	$2.6bn
	High	Avg. EV/profit +20% on institutional transactions	$3.2bn

Our preliminary analysis suggested that clearly these would be significant transactions in undertaken, which would require large capital raising events potentially exceeding the current market capitalisation of HUB.

Given the significance of the potential transactions, strategic rationale, execution, integration and success would prove highly complex and perhaps risky. HUB management has exhibited first class execution in our view, which has been reflected in their growth across several metrics and share price performance.

Undertaking an acquisition of North or Panorama would likely materially dilute existing holders, as well as the growth profiles of top and bottom-line performance and FUA, all of which are attributable to HUB's current valuation which is at a premium to traditional metrics. Our analysis utilising debt and equity shows significant EPS accretion for North and Panorama across our Low, Mid and High Valuation scenarios.

However, HUB would likely trade at a PE discount to current levels (44.1x forward FY23) given the resulting diluted growth profile and increased risk profile of a proposed combination event.

HUB could trade at a significant share price premium to current levels post-acquisition on our modelling when applying FY23 PE targets of 20x – 30x, after layering our NPAT assumptions as well as conservative synergy assumptions (5% of EV vs. industry average of ~9%). Clearly, management would need to consider whether to continue organically growing its existing business, or whether to accelerate scale through inorganic options.

The strategic considerations for an acquisition by HUB in our view would be as follows:

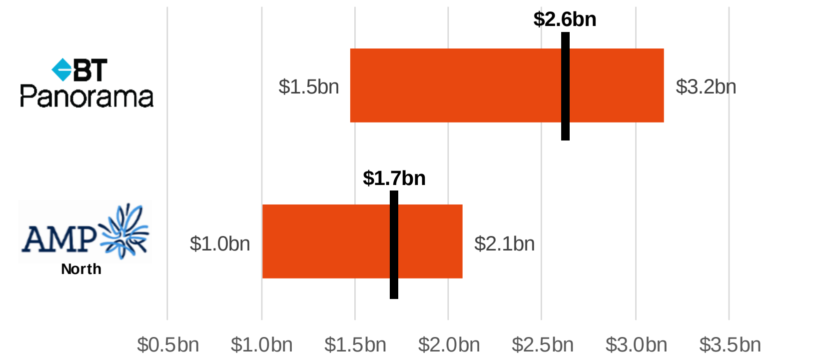
1) Could HUB raise sufficient capital from existing and/or new investors?

2) Would the market view an acquisition as a prudent use of capital having regard to dilution in their growth profile?

3) Would HUB be better off continuing to pursue organic growth?

4) Do the risks of acquiring and integrating large legacy businesses outweigh the potential scale they could afford?

Figure 10: Shaw estimated valuation ranges for North and Panorama



Source: Shaw and Partners analysis, company data

CORE DRIVERS AND CATALYSTS

Risks to our investment thesis include although are not limited to:

Strong and growing FUA and platform revenue – We forecast significant growth in platform revenue across our estimate period. Despite margin compression which in our view will inevitably continue as lower cost competitors enter, we see absolute growth in platform revenue as HUB scales. We also view lower cost competitors as somewhat unsustainable and lower quality in comparison to HUB. Key to our investment thesis in HUB is that we believe it will deliver significant operating leverage at scale.

Integration of accretive acquisitions – With a suite of compelling acquisitions and transactions announced in October 2020, we see the opportunity for HUB to integrate these acquisitions producing significant EPS accretion. We believe our estimates are conservative, with the potential for cross-sell and up-sell opportunities offering further upside in the longer term. We believe there are further acquisitions opportunities for HUB should the company wish to extend its M&A strategy.

Expansion into complementary markets – The transactions recently undertaken by HUB represent a significant foray into the non-custody segment upon completion. The marquee transactions add further diversification to HUB's operating model, as well as the ability to leverage existing capabilities in complementary markets. Existing clients of HUB will benefit from further additions to their current service offering, whilst newly acquired clients from Xplore may be presented with the opportunity to experience the superior HUB platform.

Robust cashflow supporting significant optionality – HUB's sustained growth in free cashflows lends itself to a broad range of optionality, which in addition to dividend payments include high ROIC capex activities (i.e. platform functionality and buildout), new market entries and further inorganic expansion via accretive M&A. Shaw forecasts growth in free cashflows and continued acceleration in outer years supporting our DCF assumptions and underpinning our valuation.

Industry tailwinds expected to accelerate in a massive addressable market – HUB operates in the specialist wealth platform industry, which has experienced significant disruption which we anticipate continuing as advisers transition away from bank aligned models (receiving only 4% of the 700 adviser transitions during 2Q20). With HUB's growth in market share across its operating history, Shaw estimates market share of >4% by FY23e as the company continues to take share from banks and non-specialist platform providers.

Experienced and diligent board and management with proven track record – We believe HUB's board and management are first class, tenured and have a track record of setting and achieving forecast FUA guidance for which they are incentivised. Key to continued performance in the increasingly challenging platform space is attracting and retaining top talent, as well as investing ahead of growth, both of which we see HUB undertaking.

We view HUB as an opportunity to gain exposure to a first-class platform that is taking significant market share in a large and growing market. Multiple growth levers are currently on the table for HUB, and we believe management have the experience and vision to continue to deliver outperformance into the future.

KEY RISKS

Risks to our investment thesis include although are not limited to:

Growth aspirations – HUB has ambitions continue to grow materially from an already strong track record. There is no guarantee that HUB has the ability to navigate and achieve its long-term growth aspirations. If the business does not perform to a degree that is deemed satisfactory by the market due to competitive pressures, failure to technologically evolve, inability to capture market share, systems failure or other factors, there is a risk that the company will not deliver on market expectations.

Competitive pressures – HUB is one of several wealth management platform providers in the Australian and global markets. Intensified competition from existing operators, or the possibility of new entrants, may result in margin erosion, loss of existing clients or failure to attract a sufficient number of new clients. With a constantly evolving market landscape, HUB must focus on continual innovation to remain relevant and serve its key markets.

Technological change – We see HUB's platform as purpose built and technologically competitive or superior versus other participants in the market. However, a risk remains that HUB may not have the sufficient resources or capital to maintain its competitive advantage. This may lead to a loss of market share, or an inability to gain further traction to deliver on financial forecasts.

Regulatory change – HUB operates in a highly regulated market. Inherent in any market which is subject to intense regulatory scrutiny and oversight is a level of risk of business model disruption. HUB will need to be prepared to adapt to a changing regulatory environment should such changes impact current operations or future plans.

Systems or data failure – HUB relies heavily on its platform which involves significant amounts of infrastructure, software and data in order to fulfill client needs. However, the group may experience system failure, leading to degradation or down time of its systems, or the possibility of hacking or stolen customer information. These events could adversely affect the operations and reputation of the group.

Board and key management risk – The HUB board and management are significantly experienced and qualified in our view, and the business has attracted a high caliber of talent since inception. Failure to retain and grow executive talent may adversely impact the group's growth. Moreover, this risk is elevated for businesses experiencing material growth over a short time horizon, such as HUB.

Acquisitive risks – A level of acquisitive and integration-based risk exists when executing a transaction, including transition of clients, achievement of perceived synergies and other factors involved in M&A. The company is currently undertaking a number of acquisitions, and we expect the company may continue to be an active consolidator. Therefore, there is no guarantee that it will be able to successfully integrate or achieve synergies from acquisitions.

COVID-19 – COVID-19 is a far-reaching global event that has caused a global recession and material upheaval across all markets, products and services. Whilst COVID-19 has retreated from its peak in Australia, the pandemic is ongoing globally and elevates the risk profile of all listed companies. The pandemic is particularly relevant to HUB, which derives a material proportion of its revenue from platform fees which are linked to the performance of financial markets.

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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