

Letter to Shareholders

For the year ended 30 June 2019



aspire, innovate, grow

Managing Director/CEO & Chairman's Message

Dear Shareholders,

Overview

Prime Financial Group Ltd (Prime) are pleased to report increased earnings and the completion of the restructure of the firm in FY19, a significant milestone. Prime is now 'One Connected' professional services firm, operating

across four key areas in Accounting & Business Advisory, Wealth Management, SMSF and Capital in its three core locations of Melbourne, Sydney and Brisbane.

Earnings & Organic Growth

| | Members/Shareholders | | | | | Group | |
|------------------------------------|----------------------|----------|---------|----|--------|--------|--------|
| FY19 Financial Highlights | FY19 | FY18 | Change | | FY 19 | FY18 | Change |
| Underlying | | | | | | | |
| Revenue - contracts with customers | \$20.7m | \$19.7m | ↑ | 5% | | | |
| Revenue - total | \$21.8m | \$21.3m | ↑ | 3% | | | |
| EBITDA | \$4.1m | \$3.8m | ↑ | 9% | \$5.4m | \$5.5m | ↓ (2%) |
| Margin | 19% | 18% | ↑ | 1% | 25% | 26% | ↓ (1%) |
| NPAT | \$2.4m | \$2.2m | ↑ | 8% | \$3.3m | \$3.5m | ↓ (5%) |
| Diluted EPS (cents per share) | 1.39 | 1.29 | ↑ | 8% | | | |
| Reported | | | | | | | |
| NPAT | \$1.3m | (\$1.1m) | N/A | | \$2.2m | \$0.1m | N/A |
| Diluted EPS (cents per share) | 0.77 | (0.67) | N/A | | | | |
| Dividends paid (cents per share) | 0.40 | 0.90 | ↓ (56%) | | | | |

Underlying EBITDA for members/shareholders (Prime's key profitability measure) has increased from \$3.8 million (FY18) to \$4.1 million (FY19) (9%) and reported earnings (NPAT) for members/shareholders has increased from a loss of (\$1.1) million (FY18) to a profit of \$1.3 million (FY19).

Organic revenue growth from continuing operations increased by 5%. 'Wealth Management & SMSF' revenue

was up 3%, in a year of challenges for the industry against the backdrop of The Hayne Royal Commission, whilst 'Accounting & Business Advisory plus Capital' revenue was up 7%.

Prime has a focus on continuing organic growth through a combination of additional group services for existing clients and new client growth, as 'One Connected' professional services firm, whilst also continuing to

support our 30+ Accounting Firm relationships across Wealth Management, SMSF and Capital. This will be complimented by strong cost control to continue to improve reported earnings.

Completion of Restructure & Repositioning

Prime is well positioned having divested all minority equity interests (investments in other entities, substantially Accounting Firms) and closing the financing structure, Prime Accounting & Wealth Management Pty Ltd (PWM), that these investments were held in.

Prime have also consolidated offices in Melbourne (70% + of the Prime team) and relocated offices in Sydney and Brisbane. The consolidation and focus has allowed Prime to streamline costs in key service lines, discontinue non-core services, reposition our Wealth Management structure and reduce costs in our centralised services and the corporate office.

The final stage of the restructure and repositioning has cost \$1.63 million in FY19 in non-recurring expenses, and incorporated the following;

| Final Stage of Restructure and Repositioning | | \$ |
|---|------------------|----|
| Sale of assets and acquisition related costs (7 assets) | 414,627 | |
| Office closures & relocations (4 offices) including Melbourne | 248,367 | |
| Wealth Management and service line repositioning | 781,869 | |
| Centralised services and the corporate office consolidation | 187,456 | |
| Total | 1,632,319 | |

These \$1.63 million in expenses do not recur due to the completion of the restructure and repositioning, accordingly, reported earnings and cashflow from operations are both expected to improve materially due to the elimination of these items in FY20.

Funding of Restructure & Dividends

In order to fund this final stage of restructuring in FY19 and focus on organic growth, the Prime Board reduced

the interim and final dividend to 0.20 cents per share (cps) for each period for a total of 0.40 cps for FY19. The Board also introduced a Dividend Re-investment Plan (DRP).

Future dividends have been set at a 40 – 60% payout ratio of reported and maintainable earnings, with the current payout ratio at 52% based on reported earnings for members/shareholders of 0.77 cps for FY19.

Subject to the final cash completion payment of \$730,000 in FY20 for Altezza Partners Pty Ltd (now Prime Brisbane), improvement in operating cashflow and overall debt, Prime expect dividends for shareholders to increase in FY20.

Debt (Net)

Debt has increased from \$7.7 million in FY18 to \$9.4 million for FY19. Debt peaked at \$9.8 million at the end of the first half FY19 and decreased by 30 June 2019. Overall debt increased to fund the internal working capital requirements of growing divisions, acquisitions and the completion/closure of PWM.

Debt is a combination of working capital funding, being approximately one third, and two thirds related to acquisitions. Prime are targeting debt to be in the range of 2 - 2.5 times underlying EBITDA for members/shareholders. At 30 June 2019 debt was 2.3 times, based on underlying EBITDA for members/shareholders of \$4.1 million.

Strategy - 'One Connected' Simplified Business & Reporting

As a simplified business, post restructure, Prime has a focus on continuing organic growth, cost control and underlying and reported earnings aligning.

To better report on the progress of this strategy Prime has reclassified it's financial accounts into two reporting segments, from previously one reporting segment, the two segments are, 'Wealth Management & SMSF' and 'Accounting & Business Advisory plus Capital'. This reporting structure provides current and prospective shareholders with a more detailed understanding of the

drivers of performance of those segments and the cost of operating centralised services and the corporate office.

Acquisitions & Focus

Other than immaterial tuck-in acquisitions in Capital (Eaton Capital Holdings Pty Ltd and CMB Advisory Pty Ltd) and Wealth Management (MXA Financial Planning Pty Ltd) plus the completion/closure of PWM, Prime did not initiate acquisitions during FY19. Prime have reset, completed the restructure and focussed on future improvement in profitability and dividends through organic growth and doing less, better. Prime have a continued pause on acquisitions.

FY20 & The Future

In FY20, Prime will:

- actively integrate our service capability for our clients benefit
- build organic growth and reported earnings
- closely align underlying and reported EBITDA for members/shareholders

- improve cashflow
- manage debt lower
- seek to increase dividends on the basis that underlying EBITDA for members/shareholders is in a maintainable range of 2 - 2.5 times debt
- review the existing board structure, and
- prioritise people, client service and compliance.

Prime have navigated the challenges of FY19 and repositioned the firm, we would like to thank our clients for their ongoing custom, our team for their dedication and flexibility through the recent change process and our Accounting Firm relationships for their support.



Tim Carroll
Interim Chairman



Simon Madder
Managing Director & CEO

Contact us

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| Capital & Corporate Advisory | 1800 317 006 |



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