

Praemium (PPS)				CASE:	BASE	DATE:	19/08/2021			
The Story										
Praemium is the smallest of the three leading finance platform providers in Australia that are taking FUM away from the incumbent financial and wealth management industry as part tech sector disruption and fall out from the Royal Commission. FUM growth is expected to be strong for a few more years as new funds are attracted to platform services adding to 5%+ system grow at rates that reflect ASX Index growth. The pending sale of the UK business adds opportunities to acquire additional value accretive add-on's and increases the value of PPS as a take over target (+20% value premium applied). Operating leverage will see bottom-line growth well in excess of top line and current PE and other ratios will change rapidly in the next few years as the business is still at the early stage of profitability. On growing investment and development of systems and products should maintain or growth										
The Assumptions										
What	Base Year	Terminal Year	Link to story							
FUM (\$m)	41,681	142,569	Organic growth from market value increases add to customer growth.							
Revenue	24.9%	5.0%	High terminal growth rates attributed to the nature of FUM							
Gross Margin %	70.0%	80.1%	Looking for margins to return to pre-Powerwrap levels but see this as a cap due to comp.							
EBITDA Margin %	9.4%	49.7%	High operating leverage, business is in process of crossing over scale tipping point							
Tax	10.4%	27.5%	Australia based							
Capital Spend	7,244	12,389	5% growth to maintain current offering, upside growth opportunities with additional spend							
Share Count Changes	501,628	559,650	PowerWrap acquisitions (89.5m shares) & Modest 1% ESOP per year							
Discount% : EV/EBITDA	10.0%	13.00	Average risk factors, above average system growth rate due to nature of business							
The Cash Flows (A\$'000)										
Year	Dilution	FUM	Revenue	Gross Margin	%FUM	EBITDA	%	Tax	Capex	FCFF
1	506,644	52,622	81,087	57,641	0.110%	30,383	37.5%	6,039	7,606	16,738
2	511,711	63,778	97,304	70,628	0.111%	38,995	40.1%	8,292	7,986	22,717
3	516,828	74,078	111,900	82,901	0.112%	47,031	42.0%	10,380	8,386	28,265
4	521,996	84,546	126,447	95,575	0.113%	55,253	43.7%	12,513	8,805	33,935
5	527,216	94,784	140,356	108,193	0.114%	63,288	45.1%	14,589	9,245	39,454
6	532,488	104,348	152,988	120,226	0.115%	70,718	46.2%	16,491	9,707	44,520
7	537,813	112,769	163,697	131,097	0.116%	77,108	47.1%	18,101	10,193	48,815
8	543,191	120,730	173,519	138,963	0.115%	83,034	47.9%	19,575	10,702	52,756
9	548,623	128,034	182,195	145,911	0.114%	88,316	48.5%	20,865	11,237	56,214
10	554,109	135,780	191,305	153,206	0.113%	93,906	49.1%	22,231	11,799	59,875
Terminal	559,650	142,569	200,870	160,867	0.113%	99,818	49.7%	23,677	12,389	63,752
The Value (A\$'000)										
Terminal Value (Diluted)		1,163,106	Cashflows discounted for dilution							
PV (Terminal Value)		412,695								
PV (FCFF of next 10yrs)		212,752								
Value of Operating Asset		625,447								
Adjustment for Distress		- 62,545	Failure Probability = 10%, regulatory or legal threats or failings pose some risk							
Adjustment for Future Options		125,089	Option Case = 20%, Accretive acquisitions or Additional Growth							
- Debt & Minority Interest		- 15,119								
+ Cash & Equivalents		28,888								
Value of Equity		701,761								
Value per share (Base Currency)		\$ 1.40	Insider Holding%: 5.1%; 7p Remuneration Report; GlassDoor: Rec 78%, CEO 75%							
FX Rate		1.000	Current Price	%						
Value per share (A\$)		\$ 1.40	\$ 1.20	17%						
Source: Methodology and Format are based on that done by Aswath Damodran (see: aswathdamodaran.blogspot.com)										
Disclaimer: Valuation is not to be relied on as financial advice of any sort and is prepared for personal use of the author only.										