

**Managing  
Director/CEO and  
Chairman's Report**

**20  
16**

**Integrated Wealth Management**



Prime Financial Group is an  
ASX Listed Integrated Wealth  
Management Firm for business  
owners and family groups.

Prime's goal is for clients to  
receive complete Accounting  
& Wealth Management Advice.

# Managing Director/CEO & Chairman's Report

## FY16 Annual Results

Members of the Parent Entity

- Profit Before Income Tax \$3.94m (up 120%)
- Profit After Income Tax \$3.23m (up 116%)
- Earnings Per Share 2.22 cents (up 116%)
- Final Dividend of 0.40 cents

We are pleased to report a Profit Before Income Tax for members of the parent entity of \$3.94m (Consolidated \$5.95m) and a Profit After Income Tax of \$3.23m (Consolidated \$4.59m). The profit is at the higher end of the previous forecast profit provided in the market update on 22 June 2016. This represents a 116% increase over the reported 2015 Profit After Income Tax (Consolidated 123%).

The profit includes a profit on the restructure of the Company's portfolio of investments in Accounting Firms and Wealth Management Businesses of \$463k.

## Other Key Performance Indicators

- Excluding the 2015 impairment charge the underlying Profit Before Income Tax increased by 5% while the Profit After Income Tax increased by 20%
- Normalised Earnings Per Share increased by 19%
- Revenue increased by 9%
- Debt reduced by 69% from \$7.4m to \$2.3m

## Business & Operating Environment

The past twelve months has seen Prime complete the substance of its restructuring which involves a more concentrated and focused operating model and greater involvement with key partners to assist more proactively with growth, often through a higher equity interest in the investment. This we believe will allow for greater consistency in outcomes for clients, team members, equity partners in investments and Prime shareholders.

Prime undertook a review of all of its accounting firm investments as part of a restructuring process, reflecting the need to address the substantial operational changes occurring through accountants licensing, technology and Prime's global labour resourcing platform. This resulted in the transfer of 2 accounting firm investments and their associated wealth management entities to Prime Accounting & Wealth Management Pty Ltd (PWM). Where an investee did not fully embrace the Prime operating model, it was decided to dispose of the equity back to the accounting firm partners. This resulted in the sale of equity in 2 accounting firms.

The Australian stockmarket during the financial year ending 30 June 2016 was down approximately 3%. This, combined with the sale of a wealth management entity as part of a broader divestment led to a reduction in wealth management recurring revenue. This however was offset by increasing accounting revenue through Share of Profit plus a profit on the restructure of investments in accounting firms and wealth management businesses.

As mentioned 12 months ago, the pace of change and disruption in professional services across Accounting, Wealth Management & Advice continues unabated and it is for this reason that Prime increased its investment in Technology and our global labour resourcing platform. These two investments are in part about protecting margins, reducing costs and looking for scalable growth but also about industrialising best practice operating models so that clients can be better served and their experience with Prime and Prime related partners continues to improve.

Exciting opportunities are presenting themselves and with increased scale and resources Prime are well positioned to progress a more concentrated strategy.

## Prime's Operations

Prime's revenue is generated through a wealth management operation that directly services its own clients and the clients of Prime's 35 investments in wealth management entities (co-owned with accounting firms). Prime also has investments in accounting entities, 'directly' and through Prime subsidiary Prime Accounting & Wealth Management Pty Ltd (PWM).

## Strategy

Prime's key strategic objectives are;

1. For the Prime brand to be known as the destination for complete Accounting, Wealth Management and Advice
2. To become the Premier Partner to Accountants for Growth and Integrated Wealth Management, by;
  - a. Building Wealth Management entities with Accountants to 'complete' their client service offering utilising Prime's Client Engagement Model (CEM)
  - b. Investing equity capital into Accounting Firms for Growth and to address internal Succession Planning where appropriate
  - c. Enabling Accounting Firms strategy through a clear Vision of the Future of Advice, Client Service and efficient Operating Model
3. Deliver Personalised Advice for Business Owners and Family Groups for a Secure Financial Future
4. Focus Client Service around a theme of 'Immediate Fulfilment' (anytime, anywhere) and 'Co-Created Client Experiences' delivered within established and developing Prime systems, processes and technology
5. Utilise Technology, Centralisation and Global Labour Resources to enable growth, scalability and continuous and improved client service and value in a combined physical and digital environment
6. At our core, build a culture of innovation

## Key Developments

The key developments for Prime have included;

### Marketing

1. Creation of 'Whitepapers' and other regular thought leadership pieces on 'The future of Advice'
2. Implementation of Prime's 'Accountant Advisory Board' to help guide future strategies around CRM, database development and more Integrated Client Engagement
3. Delivery of Strategic Marketing support to Accounting Partners
4. Regular production of client focused content through campaigns across Digital, Social and Physical channels
5. Corporate sponsorship of both charity events, and a local sporting club partnership to promote social causes and local community engagement
6. Trialing direct to market digital campaigns for new client opportunities

### Technology

Prime have undertaken a thorough review of all Information Communication Technology (ICT) systems and processes to ensure alignment with organisational growth, staff enablement and competitive advantage. As part of this review and investment Prime have engaged a Chief Technology Officer (CTO) to lead this development which is a key component of Prime's overall business strategy.

# Managing Director/CEO & Chairman's Report

## continued

### Investment Advice

1. Increased use of Prime's Separately Managed Accounts (SMA's). SMA Funds Under Management (FUM) were \$96m at 30 June 2016, up from \$19m a year earlier
2. Rollout of Prime's International SMA on 18 February 2016

### Performance

(1/07/13 – 30/06/16)

PRE-FRANKING CREDITS	3 YEAR AV.
<b>Prime Australian Equity Growth Portfolio</b>	<b>9.31%</b>
S&P/ASX200 Accumulation Index	7.66%
<b>Prime value added</b>	<b>1.65%</b>
<b>Prime Australian Equity Income Portfolio</b>	<b>6.66%</b>
S&P/ASX200 Accumulation Index	7.66%
<b>Prime value added</b>	<b>(1.00%)</b>
<b>Prime Defensive Income Portfolio</b>	<b>3.28%</b>
Bloomberg Bank Bill Index	2.85%
<b>Prime value added</b>	<b>0.43%</b>

3. Increased use of Prime's 'three tier' service offering for clients from Self Directed investors through to Full Advice clients
4. Group FUM declined by \$74m to \$977m principally due to outflows from business divestments of \$46m and other movements of \$33m

### Resourcing

1. Prime has increased Financial Advisory staff in both New South Wales, a key market opportunity for Prime, and also in Western Australia where Prime is also seeking to grow
2. Another key area of investment for Prime has been in Marketing where Prime continues to build our operations
3. Progress has also been advanced to further imbed Prime's global labour resourcing model which is a key part of Prime's growth strategy

### Investments & Divestments

1. On 21 July 2015, Prime completed the transfer of two of its existing investments in Accounting Firms and their related Wealth Management Entities to its subsidiary PWM. After allowing for Prime's capital contribution to PWM of \$1.8m an amount of approximately \$3.6m was available to pay down existing bank debt
2. On 26 August 2015 Prime sold its direct 50% interest in a Sydney based Accounting and Wealth Investment to the existing principals. Prime realised \$2.5m from the sale
3. On 1 September 2015, Prime acquired a 40% interest in Accounting & Advisory Firm Watermans International Holdings Pty Ltd
4. On 8 December 2015, Prime increased its investment in Accounting & Advisory Firm MPR Group Pty Ltd from 10% to 40%
5. On 5 August 2016, Prime increased its investment in Accounting & Advisory Firm MPR Group Pty Ltd from 40% to approximately 93%
6. On 26 August 2016 Prime's 93% owned MPR Group (MPR) announced it had acquired the majority of the accounting client base of Watermans International Holdings Pty Ltd which Prime already had a 40% interest



## Earnings

FINANCIAL	FY16 \$M	FY15 \$M	% CHANGE FY16 V FY15
<b>Consolidated Entity</b>			
Profit Before Income Tax	5.95	(18.33)	132%
Profit After Income Tax	4.59	(19.72)	123%
<b>Members of the Parent Entity (After Outside Equity Interest)</b>			
Profit Before Income Tax	3.94	(19.43)	120%
Profit After Income Tax	3.23	(20.49)	116%
Basic & Diluted Earnings (cents per share)	2.22	(14.07)	116%
Dividend Paid & Proposed (cents per share) (Fully franked)	0.80	0.80	-

FINANCIAL – LESS IMPAIRMENT	FY16 \$M	FY15 \$M	% CHANGE FY16 V FY15
<b>Consolidated Entity</b>			
Profit Before Income Tax	5.95	4.87	22%
Profit After Income Tax	4.59	3.47	32%
<b>Members of the Parent Entity (After Outside Equity Interest)</b>			
Profit Before Income Tax	3.94	3.76	5%
Profit After Income Tax	3.23	2.70	20%
Basic & Diluted Earnings (cents per share)	2.22	1.86	19%
Dividend Paid & Proposed (cents per share) (Fully franked)	0.80	0.80	-

# Managing Director/CEO & Chairman's Report

## continued

### Summary

DETAILED FINANCIAL – LESS IMPAIRMENT	FY16 \$M	FY15 \$M	% CHANGE FY16 V FY15
Wealth Management - New Business Revenue	2.63	2.32	13%
- Recurring Revenue	6.85	7.48	(8%)
- Licensing Revenue	0.31	0.35	(11%)
<b>Total Wealth Revenue</b>	<b>9.79</b>	<b>10.15</b>	<b>(4%)</b>
Accounting revenue – Share of Profit	2.72	1.80	51%
Other Income	0.48	0.38	26%
Net benefit from restructuring investments	0.46	-	-
<b>Total Accounting &amp; Other Income</b>	<b>3.66</b>	<b>2.18</b>	<b>67%</b>
<b>Total Revenue</b>	<b>13.45</b>	<b>12.33</b>	<b>9%</b>
Less Group Overheads	(7.50)	(7.46)	(1%)
<b>Profit Before Income Tax</b>	<b>5.95</b>	<b>4.87</b>	<b>22%</b>
Less Non-Controlling Interest	(2.01)	(1.11)	(81%)
<b>Members of the Parent Entity (After Outside Equity Interest)</b>			
Less Impairment	-	(23.19)	-
<b>Profit Before Income Tax</b>	<b>3.94</b>	<b>(19.43)</b>	<b>120%</b>
<b>Profit After Income Tax</b>	<b>3.23</b>	<b>(20.49)</b>	<b>116%</b>

OPERATIONAL – LESS IMPAIRMENT	FY16	FY15	% CHANGE
Group Operating Margin	29%	30%	(1%)
Total FUM (\$B)	0.977	1.051	(7%)

FUNDS UNDER MANAGEMENT (FUM)	FY16 \$M
<b>Opening FUM</b>	<b>1,051</b>
FUM - Net FUM	5
FUM – Outflow from Sale of Business	(46)
Other Movements	(33)
<b>FUM – Net Total Movement</b>	<b>(74)</b>
<b>Closing FUM</b>	<b>977</b>

## Dividend Policy

Directors confirm a final dividend of 0.40 cents per share (CPS), which when added to the interim dividend of 0.40 CPS, equates to a full year dividend of 0.80 CPS. Directors expect dividends to increase over time however this is being balanced against the prospect of acquisition activities and reasonable debt levels.

## Focus for The Year Ahead

Prime continues to have a focussed strategy for growing value, at both an organic and acquisition level.

The plan for the next twelve months is to:

1. Invest further in Technology and Prime Client Engagement Platforms
2. Build and market the Prime brand as the destination for complete Accounting, Wealth Management and Advice
3. Continue to differentiate at a client solution level and build more scale
4. Seek to increase equity interests, as appropriate, with existing partners and new partners that share a similar business and client philosophy, a concept of fewer done better
5. Build further scale and leverage a Global Labour Resourcing Team for Growth, Scalability and Efficiency
6. Innovate, change and evolve ahead of the curve

Having substantially completed its restructuring of operations Prime will now look to leverage the knowledge and operating model for better more concentrated results, both through internal operations and through our partner operations (Investments) in Accounting and Wealth Management.

Prime's goal remains to become the Premier Partner to Accountants for Growth and Integrated Wealth Management and to deliver personalised advice for clients for a secure financial future. Importantly though, Prime is also seeking to build and lead the market as the brand destination for complete Accounting, Wealth Management and Advice.

## Directors

Mr Stuart James resigned as Chairman on 24 November 2015. The board would like to thank Mr James for his significant contribution over the last 9.5 years as a Director and also as Chairman of Prime.

Mr Paul Cowan and Mr Tim Carroll were appointed to the board as Independent Non-Executive Directors. Both Directors have brought additional diversity of experience to the Prime Board.

Mr Cowan will be appointed as independent chairman prior to the annual general meeting.

## The Team and Prime's Partners

We would like to thank the extended Prime team for their dedication and passion, to deliver on the Prime Group goals. It is also very important to acknowledge Prime's existing and new Accounting and other related Partners, without their support Prime's growth ambitions can not be achieved.



**Mr Simon Madder**  
Managing Director  
& CEO



**Mr Peter Madder**  
Chairman  
& CFO



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