

Securing a wedge in the wholesale term deposit market

Trustees Australia Ltd (TAU.AX) owns Cashwerkz, a fintech business which has developed and operates an online term deposit marketplace and cash management platform, RIM Securities, an independent specialised fixed interest business, Redgate Asset Management, and the Trustees Australia custodial business. Pre-merger in August 2017, TAU announced it would raise up to \$10m at \$0.20/share to fund Cashwerkz' growth trajectory and working capital requirements. Since our initial report, published on 23rd August 2017, Cashwerkz has made good progress in establishing beachheads with custodial businesses and financial adviser groups. Our forecasts had not previously focused on the wholesale market as a significant contributor to Cashwerkz businesses and, as a consequence we have revisited our forecasts to make some refinements. This has resulted in a 15.4% and 6.0% increase respectively in forecast revenues for FY18 and FY19. Our expectation is that TAU will be cashflow positive in H120. Our base case DCF valuation has increased by \$0.04/share to \$0.39/share.

Business model

Cashwerkz has developed a patent pending, streamlined Identity Verification and Management process which saves time and money for both consumers and authorised deposit taking institutions (ADIs) in streamlining transacting and managing term deposits and easily establishing new compliant bank accounts. The merger between Cashwerkz and TAU brought together Cashwerkz's platform and technology and RIM Securities' established reputation and relationships with around 40 ADIs in promoting and placing term deposits and other cash investments. RIM Securities has been operating for more than 13 years in the market and is in the process of migrating customers to the platform.

Earnings adjustments and valuation

Trustees Australia has made significant inroads into providing efficient management of term deposits by registered custodians. Cashwerkz and Rim Securities have signed a Memorandum of Understanding with Australian Executor Trustees (AET) in December and are currently on-boarding and expanding AET's approved ADIs. The agreement is for Cashwerkz to provide a secure technology platform for AET to offer term deposits to their clients and undertake transactions. TAU is in the process of enabling this platform which positions it to provide the same service to other custodians, which represent large potential business volume through a small customer number base. Term deposits held by registered custodians are more than \$380bn and Cashwerkz is the first automated, streamlined multi ADI platform available for custodians. We have now included this segment in our forecasts and are conservatively factoring in that TAU can secure 2% of the custodial cash deposits by FY21 and 1.2% of the total TD market by FY25. The impact on our earnings forecasts is at the top-line, with a 19% upgrade to revenues and 12% to NPAT long-term.

Our base case forecasts deliver a DCF valuation of \$0.39/share (previously \$0.35/share) using a WACC of 11.7%, Beta of 1.5 and terminal growth rate of 2.2%. At 2.05% share of the term deposits market, the valuation rises to \$1.32/share. We would expect a significant gap between the DCF valuation (a fundamental valuation based on an early stage company achieving a strong growth trajectory) and the price that the market is prepared to pay. We see this gap closing as Cashwerkz demonstrates that it can drive customers to its platform.

Historical earnings and RaaS Advisory estimates

Year end	Revenue(A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS*(c)	EV/Rev (x)	P/E (x)
Jun-18e	1.3	(3.0)	(3.8)	(1.4)	15.2	n/a
Jun-19e	3.2	(1.6)	(2.3)	(2.0)	6.2	n/a
June-20e	7.9	2.8	0.9	0.8	2.5	22.8
June-21e	11.7	6.5	3.5	3.2	1.7	5.7

Source: RaaS Advisory

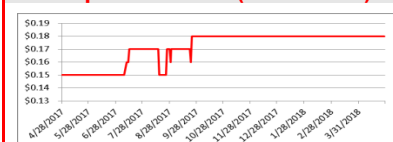
Regtech/Fintech

14 May 2018

Share details

ASX Code	TAU
Share price at 2 March	\$0.18
Market Capitalisation	\$15.5M
Shares on issue	86.0M
Enterprise value	\$16.8M
Net debt at 31 Dec 17	\$1.3M
Free float	26.2%

Share performance (12 months)



Upside Case

- White label opportunities for Identity Verification and Management technology
- Cash and term deposits remain one of the largest pools for SMSFs
- RIM Securities delivers a strong track record with ADIs

Downside Case

- Financial comparison space is highly competitive
- Users can take information and transact offline
- Needs support of ADIs/dealer groups to succeed

Board of Directors

Michael Hackett	Non-Executive Chairman
Brooke Adcock	Non-Executive Director
Nathan Leman	Non-Executive Director
John Nantes	Non-Executive Director

Company contacts

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www.cashwerkz.com.au/www.trusteesaustralia.com.au/www.rimsec.com/
www.redgateam.com.au

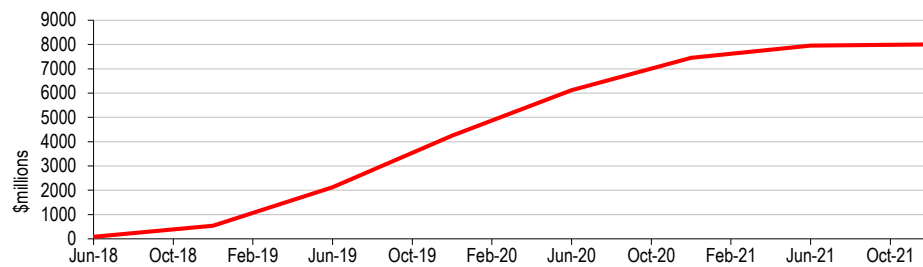
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Earnings adjustments

We have factored in new forecasts for Custodial funds under management following the successful MOU with AET and an expectation that this will develop into similar arrangements with other custodial groups. Currently there is \$380bn¹ in cash term deposits held by custodians and financial institutions and these deposits are predominantly managed manually. Our forecasts are for TAU to capture \$8bn or a 2% share of the Custodial term deposit funds under management market over the next five years as the following exhibit demonstrates. Our forecasts are conservative, in our view, with this being fulfilled by just eight custodians coming on the platform by FY25. The benefit to the custodians is that it streamlines the term deposit processes including approval workflow without disrupting investor relationships. The custodial business delivers revenues at a margin of 0.03%, which is lower than the 0.1% margins from the retail business, but it positions TAU to expand its ADIs. The opportunity for TAU is that it will broaden the number of authorised deposit-taking institutions that will be encouraged by the custodians to move onto the Cashwerkz platform in order to continue servicing custodial clients.

Exhibit 1: Forecasted Custodial FUM included in forecasts



Source: RaaS Advisory estimates

We are forecasting that the introduction of the custodial business will help offset some of the slower than expected take-up of the platform due to the delays in the capital raise, highlighted in our interim results report, published February 5, 2018. We have increased our revenue forecasts in FY18e and FY19e by 15.4% and 6.0% as demonstrated in Exhibit 2 and pared back our net loss expectations for both financial years.

Exhibit 2: Earnings adjustments

Year ended 30 June	FY18 old	FY18 new	% change	FY19 old	FY19 new	% change
Revenue	1.14	1.31	15.4%	3.0	3.2	6.0%
EBITDA	-3.65	-3.04	-16.7%	-2.4	-1.61	-32.7%
EBIT	-4.72	-4.37	-7.4%	-3.5	-3.15	-9.1%
NPAT	-4.02	-3.78	-6.1%	-2.6	-2.26	-11.6%

Source: RaaS Advisory

Our base case forecasts assume that Cashwerkz will secure 1.19% share of the \$2.2tr cash deposits market by FY25, which would deliver \$16.6m a year in revenue and \$7.1m in NPAT. We have set out our forecasts to FY25 in the following exhibit.

Exhibit 3: Share of market and earnings estimates in base case forecasts

In A\$m	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
% share of cash deposits market	0.13%	0.35%	0.73%	0.97%	1.09%	1.14%	1.17%	1.19%
Revenue	1.3	3.2	7.9	11.7	14.0	15.1	15.8	16.6
EBITDA	-3.0	-1.6	2.8	6.5	8.8	9.7	10.4	11.0
NPAT	-3.8	-2.3	0.9	3.5	5.2	5.9	6.5	7.1

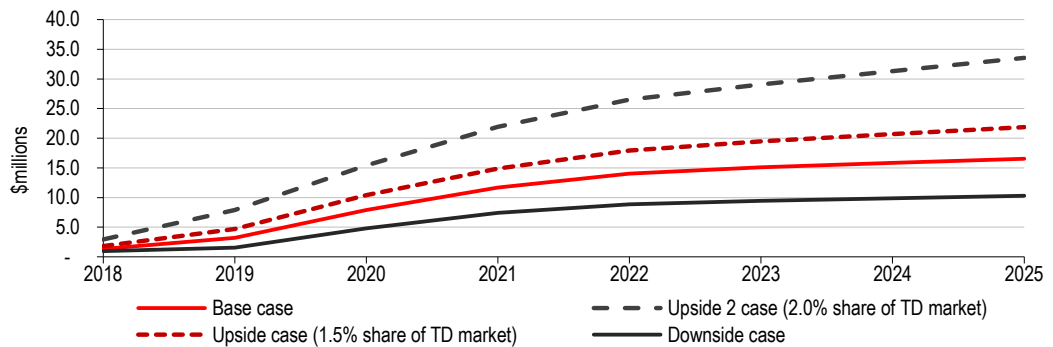
Source: RaaS Advisory

¹ APRA Monthly Banking Statistics, March 2018

Valuation

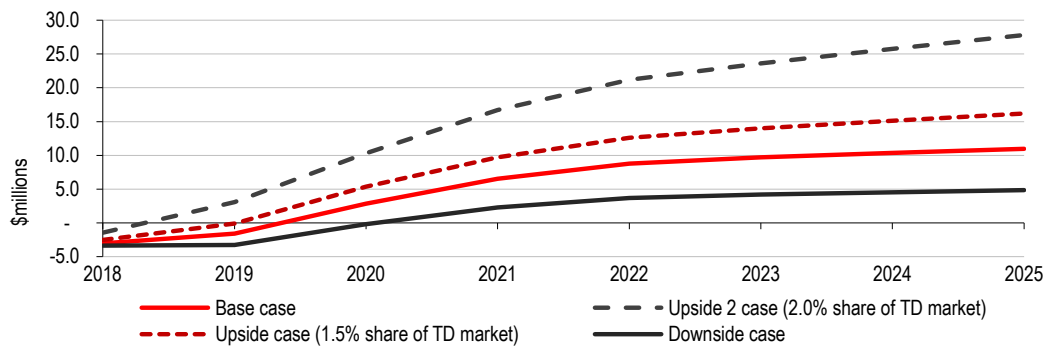
Our base case DCF valuation has increased by \$0.04/share to \$0.39/share following our earnings adjustments. The parameters for the DCF, WACC 11.7%, beta of 1.5, terminal growth rate of 2.2% remain unchanged. Our base case valuation is predicated on TAU securing a 1.19% share of the \$2.2bn cash deposits market by 2025. If Cashwerkz was to secure a 1.5% share of the cash deposits market, our valuation would rise to \$0.68/share; if the company was to secure a 2.05% share of the cash deposits market, the DCF valuation rises to \$1.32/share. As we set out in Exhibit 4 and 5, the upside case impact on revenues and EBITDA adds significantly to our base case forecasts. Upside case 2 is based on a 2.0% share of total market while the upside case is based on 1.5% share.

Exhibit 4: Scenario analyses impact on revenue forecasts



Source: RaaS Advisory

Exhibit 5: Scenario analyses impact on EBITDA forecasts



Source: RaaS Advisory

Our upside and downside cases (20%+/- base case revenues) as well as an additional upside case, that being 2.0% share of the term deposit market, are reflected in the following exhibit.

Exhibit 6: Scenario analysis impact on valuation

DCF case scenario	\$ per share	Share of cash deposit FUM market
Base case	0.39	1.19%
Upside Case	0.68	1.50%
Upside Case 2	1.32	2.05%
Downside case	0.03	0.60%

Source: RaaS Advisory

Exhibit 4: Financial Summary

Trustees Australia Ltd (TAU.AX)						Share price (10 May 2018)						A\$	0.18				
Profit and Loss (A\$m)						Interim (A\$m)											
Y/E 30 Jun	FY17A	FY18F	FY19F	FY20F	FY21F	Revenue	H118F	H218F	H119F	H219F	H120F	H220F					
Revenue	1.3	1.3	3.2	7.9	11.7	0.5	0.8	1.1	2.1	3.3	4.6						
EBITDA	(0.1)	(3.0)	(1.6)	2.8	6.5	(1.6)	(1.4)	(1.3)	(0.3)	0.8	2.0						
Depn	(0.2)	(0.5)	(0.1)	(0.3)	(0.4)	(2.2)	(2.2)	(2.1)	(1.1)	0.1	1.3						
Amort	0.0	(0.8)	(1.4)	(1.2)	(1.0)	(2.2)	(1.6)	(1.5)	(0.8)	0.0	0.9						
EBIT	(0.3)	(4.4)	(3.2)	1.4	5.1	NPAT (normalised)	(2.2)	(1.6)	(1.5)	(0.8)	0.0	0.9					
Interest	0.0	(0.1)	(0.1)	(0.1)	(0.1)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Tax	0.0	0.7	1.0	(0.4)	(1.5)	NPAT (reported)	0.0	(1.6)	(1.5)	(0.8)	0.0	0.9					
Minorities	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	0.00	(1.43)	(1.31)	(0.72)	0.01	0.78					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	EPS (reported)	(3.03)	(1.84)	(1.31)	(0.72)	0.01	0.78					
NPAT pre significant items	(0.3)	(3.8)	(2.3)	0.9	3.5	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0					
Significant items	(1.6)	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0					
NPAT (reported)	(1.9)	(3.8)	(2.3)	0.9	3.5	Operating cash flow	(0.9)	(1.6)	(1.3)	(0.4)	0.8	1.6					
Cash flow (A\$m)						Free Cash flow						(0.7)	(0.8)	(0.5)	0.4	1.5	2.3
Y/E 30 Jun	FY17A	FY18F	FY19F	FY20F	FY21F	Divisions						H118F	H218F	H119F	H219F	H120F	H220F
EBITDA	(0.1)	(3.0)	(1.6)	2.8	6.5	Cashwerkz	0.0	0.2	0.8	1.6	2.8	3.8					
Interest	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	RIM securities	0.3	0.3	0.3	0.4	0.5	0.5					
Tax	0.0	0.0	0.0	(0.4)	(1.5)	TAU	0.1	0.3	0.0	0.0	0.0	0.1					
Working capital changes	(0.2)	0.5	0.0	0.0	0.0	Redgate	0.0	0.0	0.0	0.1	0.1	0.1					
Operating cash flow	(0.3)	(2.6)	(1.7)	2.4	4.9	Total REVENUE	0.5	0.8	1.1	2.1	3.3	4.6					
Mtce capex	(0.2)	(1.1)	(1.5)	(1.5)	(1.4)	Cashwerkz	(1.2)	(1.1)	(0.6)	0.2	1.3	2.3					
Free cash flow	(0.5)	(3.7)	(3.2)	0.9	3.5	RIM securities	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)					
Growth capex	0.0	0.0	0.0	0.0	0.0	TAU	(0.1)	0.1	(0.3)	(0.3)	(0.3)	(0.1)					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Redgate	(0.0)	(0.0)	(0.0)	0.1	0.1	0.1					
Other	0.0	(0.3)	0.0	0.0	0.0	EBITDA	(1.6)	(1.4)	(1.3)	(0.3)	0.8	2.0					
Cash flow pre financing	(0.5)	(3.9)	(3.2)	0.9	3.5	Margins, Leverage, Returns						FY17A	FY18F	FY19F	FY20F	FY21F	
Equity	0.0	8.1	0.0	0.0	0.0	EBITDA	(7.5%)	(231.3%)	(50.4%)	36.0%	55.8%						
Debt	0.6	0.2	0.0	0.0	0.0	EBIT	(21.6%)	(332.5%)	(98.6%)	17.3%	43.7%						
Dividends paid	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items	(19.6%)	(287.5%)	(70.5%)	11.1%	30.1%						
Net cash flow for year	0.1	4.3	(3.2)	0.9	3.5	Net (Debt)/ Cash	0.5	1.2	(2.0)	(1.1)	2.4						
Balance sheet (A\$m)						Net debt/EBITDA (x)	n/a	n/a	n/a	(0.4)	0.4						
Y/E 30 Jun	FY17A	FY18F	FY19F	FY20F	FY21F	ND/ND+Equity (%)	(8.5%)	(10.3%)	15.7%	8.8%	(18.7%)						
Cash	0.5	3.8	0.6	1.5	5.0	EBIT interest cover (x)	n/a	n/a	n/a	0.1	0.0						
Accounts receivable	0.3	0.0	0.0	0.0	0.0	ROA	(2.6%)	(34.1%)	(21.5%)	9.8%	31.4%						
Inventory	0.0	0.0	0.0	0.0	0.0	ROE	(23.2%)	(37.8%)	(19.0%)	7.8%	26.2%						
Other current assets	8.2	0.3	0.3	0.3	0.3	ROIC	(9.3%)	(77.0%)	(39.8%)	23.7%	69.0%						
Total current assets	9.0	4.2	0.9	1.8	5.3	NTA (per share)	0.2	0.1	0.1	0.1	0.1						
PPE	0.0	1.0	2.4	3.6	4.6	Working capital	(0.0)	0.0	0.0	0.0	0.0						
Goodwill	0.8	0.2	0.2	0.2	0.2	WC/Sales (%)	(1.7%)	0.0%	0.0%	0.0%	0.0%						
Other intangibles	0.0	9.7	8.3	7.1	6.1	Revenue growth	(67.2%)	1.6%	143.3%	146.7%	47.8%						
Deferred tax asset	0.0	0.7	1.6	1.6	1.6	EBIT growth pa	n/a	n/a	n/a	(143.3%)	273.0%						
Other	0.0	0.0	0.0	0.0	0.0	Pricing						FY17A	FY18F	FY19F	FY20F	FY21F	
Total non current assets	0.8	11.6	12.6	12.6	12.6	No of shares (y/e)	33	111	111	111	111						
Total Assets	9.8	15.8	13.6	14.4	17.9	Weighted Av Dil Shares	33	72	111	111	111						
Accounts payable	0.3	0.0	0.0	0.0	0.0	EPS Reported	(6.20)	(4.87)	(2.03)	0.79	3.16						
Short term debt	0.0	2.6	2.6	2.6	2.6	EPS Normalised/Diluted	(6.20)	(1.43)	(2.03)	0.79	3.16						
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)	n/a	n/a	n/a	-139%	300%						
Other current liabilities	2.6	0.2	0.2	0.2	0.2	DPS	-	-	-	-	-						
Total current liabilities	2.8	2.8	2.8	2.8	2.8	DPS Growth	n/a	n/a	n/a	n/a	n/a						
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%						
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30						
Total long term liabilities	0.0	0.0	0.0	0.0	0.0	PE (x)	-	-	-	22.8	5.7						
Total Liabilities	2.8	2.8	2.8	2.8	2.8	PE market	15.8	15.8	15.8	15.8	15.8						
Net Assets	7.0	13.0	10.8	11.6	15.1	Premium/(discount)			n/a								
Share capital	4.1	17.2	17.2	17.2	17.2	EV/EBITDA	(66.7)	(8.7)	(14.4)	8.5	4.2						
Accumulated profits/losses	2.9	(4.1)	(6.4)	(5.5)	(2.0)	FCF/Share	(0.91)	(2.32)	(1.51)	2.12	4.44						
Reserves	0.0	0.0	0.0	0.0	0.0	Price/FCF share	(19.8)	(7.7)	(11.9)	8.5	4.1						
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield	(5.0%)	(12.9%)	(8.4%)	11.8%	24.7%						
Total Shareholder funds	7.0	13.0	10.8	11.6	15.1												

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 11th May 2017



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- how we transact with you
- how we are paid, and
- complaint processes

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