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### Recommendation

**Spec Buy** (Buy)

### Price

**\$0.083**

Target (12 months)

**\$0.15** (unchanged)

### Expected Return

Capital growth **80.7%**

Dividend yield **0%**

Total expected return **80.7%**

### Company Data & Ratios

Enterprise value **40m**

Market cap **57m**

Issued capital **687m**

Free float **45%**

Avg. daily vol. (52wk) **535,321**

12 month price range **\$0.052-\$0.145**

GICS sector

**Diversified Financials**

Disclosure: Bell Potter Securities acted as (previously as Southern Cross Equities) lead manager in the placement of 166.7m shares raising \$12.5m at \$0.075 a share in December 2010 and received fees for that service.

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.06	0.07	0.09
Absolute (%)	45.61	27.69	-6.74
Rel market (%)	43.25	24.67	1.77

### Absolute Price



SOURCE: IRESS

# Investorfirst (INQ)

## Client wins for Hub24 investment platform, including Ord Minnett

### Platforms key to integrated model, Hub24 to get attention

Investorfirst (INQ) is a diversified financial company providing investors, advisers and brokers with access, facilitation, administration and other services. We believe the key asset in the portfolio is Hub24, which is a next-generation investment platform, with leading Separately Managed Account (SMA) technology, including standard Wrap functionality. Hub24, along with other investment platforms play a key role in the financial services fully-integrated model in the Australian market. We believe the commercialisation of Hub24 will drive shareholder value, and in the current environment, attract the attention of bigger consolidators in the space.

### New clients add to momentum

Today INQ announced its 100% owned Hub24 investment platform has secured seven new clients, bringing the total number of firms using the platform to over twenty. The signings are listed below with the key group being Ord Minnett. While the other firms appear small they include adviser groups, stock brokers and an SMSF specialist.

- Ord Minnett;
- Paradigm;
- Financial Force;
- Avestra (SMSF specialist);
- Bristol Street;
- Gleneagles Securities; and
- Global Prime.

### Investment view

Our Price Target remains unchanged at \$0.15 per share; however, our recommendation has been changed to Speculative Buy from Buy, to better reflect the risks involved with a company at the early stages of commercialisation.

### Earnings Forecast

Year end June 30	2010	2011	2012e	2013e
Revenue (A\$m)	8.4	7.7	13.5	20.9
EBITDA (A\$m)	-1.0	-3.3	-2.0	4.0
NPAT (cash) (A\$m)	-0.8	-2.6	-1.1	5.0
NPAT (adjusted) (A\$m)	-1.0	-3.4	-2.3	3.8
EPS (adjusted) (cps)	-0.5	-0.6	-0.3	0.5
EPS growth (%)	-21%	11%	-43%	large
PER (x)	-15.8	-14.2	-25.2	15.2
EV/EBITDA (x)	-36.6	-11.5	-18.9	9.7
Price/CF (x)	-2.6	-20.0	-16.3	15.2
Dividend (cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	-8.5%	-11.3%	-5.3%	8.6%
Franking (%)	0.0%	0.0%	0.0%	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Upgrades to platform expected soon

## **Super & insurance upgrades allows Hub24 to compete with majors**

INQ plans to upgrade the Hub24 platform to include retail superannuation and insurance options prior to the end of the year. We believe the upgrade was necessary for the platform to more effectively compete with the major platform providers and it should provide the company with a greater scope of target clients.

## **Three new investment managers join SMA environment**

Hub24 has announced three new investment managers, including: Ausbil, Pengana and Parker Asset Management, will offer SMA managed funds. Currently Hub24 has 31 investment managers providing SMA solutions on its platform.

## **Ord Minnett the major signing in today's announcement**

The largest potential of the companies announced today appears to be Ord Minnett, which has over \$3 billion in managed accounts and superannuation, which would be ideal for the Hub24 technology. The remainder of the names appear to be small, but nonetheless, provide much needed FUA and volume at the early stages of commercialisation.

# Investorfirst overview

## Company description

Investorfirst (INQ) is in the midst of a major transformation. The company is shifting from a stock broker to include Intellectual Property (IP) businesses providing services to the financials market. INQ is split into three main parts:

- **Hub24** is a next-generation investment platform, with WRAP and SMA capability. Examples of competitors include BT Wrap, Asgard, Linear and Macquarie Wrap. INQ has 100% ownership over the IP.
- **Stock broking and fund services:** includes Researchfirst (a Proprietary research system) and Alert Trader Publishing, with other emerging businesses relating to financial markets.
- **Stock broking:** a diverse offering including HNW, institutional, custody, wholesale and agency services.

## Investment strategy

We like INQ as there is significant demand for services the company can provide and the barriers to entry are high. We recommend Buying INQ to benefit from the commercialisation of Hub24, in addition to the development of the broking and fund services businesses.

## Risks

Key risks for the stock include:

- **Liquidity risk** – As INQ is a small capitalised stock, the liquidity available in the stock is limited. We view INQ as a long-term play, mitigating some of the risk associated with liquidity;
- **Technology risk** – There is a risk that the existing technologies behind the software INQ provides would be superseded or made redundant by new technologies or players in the market. We believe this risk is less relevant at this point in time given INQ's IP is new;
- **Key client risk** – The departure of a major client could be a significant loss to earnings ability for the group. By contrast, any major client win would be seen as a positive catalyst.

# Interim earnings

**Figure 1 - Interim earnings**

<b>PROFIT AND LOSS</b>									
<b>Y/e June 30 (\$m)</b>	<b>1H11</b>	<b>2H11</b>	<b>2011</b>	<b>1H12e</b>	<b>2H12e</b>	<b>2012e</b>	<b>1H13e</b>	<b>2H13e</b>	<b>2013e</b>
<b>Total revenue</b>	<b>3.6</b>	<b>4.1</b>	<b>7.7</b>	<b>6.0</b>	<b>7.5</b>	<b>13.5</b>	<b>9.6</b>	<b>11.3</b>	<b>20.9</b>
Operating Expenses	5.0	6.0	11.0	7.6	8.0	15.5	8.3	8.6	16.9
<b>EBITDA</b>	<b>-1.4</b>	<b>-1.9</b>	<b>-3.3</b>	<b>-1.6</b>	<b>-0.5</b>	<b>-2.0</b>	<b>1.3</b>	<b>2.7</b>	<b>4.0</b>
Depreciation	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.1
Acquisition amortisation	0.1	0.6	0.7	0.6	0.6	1.2	0.6	0.6	1.2
<b>EBIT</b>	<b>-1.6</b>	<b>-2.5</b>	<b>-4.1</b>	<b>-2.2</b>	<b>-1.1</b>	<b>-3.3</b>	<b>0.7</b>	<b>2.1</b>	<b>2.7</b>
Net Interest	0.2	0.6	0.8	0.5	0.5	1.0	0.5	0.5	1.0
<b>Pre-tax profit</b>	<b>-1.4</b>	<b>-1.9</b>	<b>-3.3</b>	<b>-1.7</b>	<b>-0.6</b>	<b>-2.3</b>	<b>1.1</b>	<b>2.6</b>	<b>3.8</b>
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted profit	-1.4	-1.9	-3.4	-1.7	-0.6	-2.3	1.1	2.6	3.8
<b>Cash NPAT (ex acq. amort.)</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-2.6</b>	<b>-1.1</b>	<b>0.0</b>	<b>-1.1</b>	<b>1.7</b>	<b>3.2</b>	<b>5.0</b>
One-off items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	-1.4	-1.9	-3.4	-1.7	-0.6	-2.3	1.1	2.6	3.8

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Table 1 - Financial summary**

INCOME STATEMENT						VALUATION DATA					
Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e	Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e
<b>Total revenue</b>	<b>8.4</b>	<b>7.7</b>	<b>13.5</b>	<b>20.9</b>	<b>28.1</b>	Net profit adj (\$m)	-1.0	-3.4	-2.3	3.8	10.3
Operating Expenses	9.4	11.0	15.5	16.9	18.1	Adjusted EPS (c)	-0.5	-0.6	-0.3	0.5	1.5
<b>EBITDA</b>	<b>-1.0</b>	<b>-3.3</b>	<b>-2.0</b>	<b>4.0</b>	<b>10.1</b>	EPS growth (%)	-21%	11%	-43%	large	175%
Depreciation	0.0	0.1	0.1	0.1	0.1	Cash P/E ratio (x)	-15.8	-14.2	-25.2	15.2	5.5
Acquisition amortisation	0.3	0.7	1.2	1.2	1.2	CFPS (c)	-3.2	-0.4	-0.5	0.5	1.5
<b>EBIT</b>	<b>-1.4</b>	<b>-4.1</b>	<b>-3.3</b>	<b>2.7</b>	<b>8.8</b>	Price/CF (x)	-2.6	-20.0	-16.3	15.2	5.6
Net Interest	0.3	0.8	1.0	1.0	1.5	DPS (c)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>-1.0</b>	<b>-3.3</b>	<b>-2.3</b>	<b>3.8</b>	<b>10.3</b>	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Tax	0.0	0.0	0.0	0.0	0.0	Franking (%)	0%	0%	0%	0%	0%
Adjusted profit	-1.0	-3.4	-2.3	3.8	10.3	EV/EBITDA (x)	-36.6	-11.5	-18.9	9.7	3.8
<b>Cash NPAT (ex amort.)</b>	<b>-0.8</b>	<b>-2.6</b>	<b>-1.1</b>	<b>5.0</b>	<b>11.5</b>	Price/book (x)	1.1	1.1	1.4	1.3	1.0
One-off items	0.0	0.0	0.0	0.0	0.0	NTA (\$)	0.07	0.03	0.03	0.03	0.05
Reported net profit	-1.1	-3.4	-2.3	3.8	10.3						
CASHFLOW						PROFITABILITY RATIOS					
Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e	Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e
EBITDA	-1.0	-3.3	-2.0	4.0	10.1	EBIT/sales (%)	-16%	-54%	-24%	13%	31%
Change in provisions	0.0	0.2	0.2	0.2	0.2	Return on assets (%)	-6%	-11%	-6%	5%	13%
Working capital change	-4.7	2.2	-2.7	-1.5	-1.6	<b>Return on equity (%)</b>	<b>-8%</b>	<b>-11%</b>	<b>-5%</b>	<b>9%</b>	<b>20%</b>
Net interest	0.3	0.6	1.0	1.0	1.5	Dividend cover (x)	na	na	na	na	na
Tax paid	0.0	0.0	0.0	0.0	0.0	Effective tax rate (%)	na	na	na	na	na
Other	-0.9	-2.1	0.0	0.0	0.0	LIQUIDITY AND LEVERAGE RATIOS					
<b>Operating cashflow</b>	<b>-6.3</b>	<b>-2.4</b>	<b>-3.5</b>	<b>3.7</b>	<b>10.2</b>	Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e
Capex	-0.1	-0.1	-0.1	-0.1	-0.1	Net debt/(cash) (\$m)	-8.5	-17.4	-13.8	-17.5	-27.7
Investments	0.0	-0.9	0.0	0.0	0.0	<b>Net debt/equity (%)</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
Asset sales	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	2.6	2.6	2.6	2.4	2.6
Other	0.9	0.4	0.0	0.0	0.0	INTERIMS					
<b>Investing cashflow</b>	<b>0.9</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	Half end December 31 (\$m)	1H10	1H11	1H12e	1H13e	1H14e
Change in borrowings	0.0	0.0	0.0	0.0	0.0	Sales revenue	4.0	3.6	6.0	9.6	13.0
Equity raised	7.8	11.9	0.0	0.0	0.0	<b>EBIT</b>	<b>-1.0</b>	<b>-1.6</b>	<b>-2.2</b>	<b>0.7</b>	<b>3.4</b>
Dividends paid	0.0	0.0	0.0	0.0	0.0	Pre tax profit	-0.8	-1.4	-1.7	1.1	4.1
Other	0.0	0.0	0.0	0.0	0.0	<b>Adjusted profit</b>	<b>-0.8</b>	<b>-1.4</b>	<b>-1.7</b>	<b>1.1</b>	<b>4.1</b>
<b>Financing cashflow</b>	<b>7.8</b>	<b>11.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	One-off items	0.0	0.0	0.0	0.0	0.0
<b>Net change in cash</b>	<b>2.4</b>	<b>8.8</b>	<b>-3.6</b>	<b>3.7</b>	<b>10.2</b>	<b>Reported profit</b>	<b>-0.8</b>	<b>-1.4</b>	<b>-1.7</b>	<b>1.1</b>	<b>4.1</b>
<b>Cash at end of period</b>	<b>8.5</b>	<b>17.4</b>	<b>13.8</b>	<b>17.5</b>	<b>27.7</b>	Interim DPS (cents)	0.0	0.0	0.0	0.0	0.0
						Interim adjusted EPS (cents)	0.8	-0.4	-0.2	-1.7	2.6
BALANCE SHEET											
Y/e June 30 (\$m)	2010	2011	2012e	2013e	2014e						
Cash	8.5	17.4	13.8	17.5	27.7						
Receivables	16.9	21.3	22.5	33.8	45.6						
PPE	0.1	0.2	0.2	0.2	0.2						
Intangibles	2.7	24.8	23.6	22.4	21.2						
Other	-5.6	-9.1	-8.3	-13.2	-18.3						
<b>Total assets</b>	<b>22.6</b>	<b>54.6</b>	<b>51.8</b>	<b>60.6</b>	<b>76.3</b>						
Payables	7.2	10.5	9.8	14.6	19.7						
Debt	0.0	0.0	0.0	0.0	0.0						
Provisions	0.0	0.3	0.5	0.7	0.9						
Other	0.0	0.0	0.0	0.0	0.0						
<b>Total liabilities</b>	<b>7.2</b>	<b>10.8</b>	<b>10.2</b>	<b>15.3</b>	<b>20.7</b>						
Contributed equity	21.8	54.3	54.3	54.3	54.3						
<b>Total shareholders funds</b>	<b>15.4</b>	<b>43.8</b>	<b>41.6</b>	<b>45.3</b>	<b>55.6</b>						
<b>Closing issued shares</b>	<b>243.1</b>	<b>686.5</b>	<b>686.5</b>	<b>686.5</b>	<b>686.5</b>						

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Spec Buy:** Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

**Buy:** Expect >15% total return on a 12 month view

**Accumulate:** Expect total return between 5% and 15% on a 12 month view

**Hold:** Expect total return between -5% and 5% on a 12 month view

**Reduce:** Expect total return between -15% and -5% on a 12 month view

**Sell:** Expect <-15% total return on a 12 month view

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Lafitani Sotiriou owns 670,000 shares in INQ.