



12 July 2018

The Manager  
Company Announcements Office  
Australian Securities Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam,

### **MORTGAGE CHOICE LIMITED NEW BROKER REMUNERATION STRUCTURE AND GUIDANCE**

Mortgage Choice Limited (ASX:MOC) advises that the Board has approved a new broker remuneration framework which will provide franchisees with higher remuneration and reduced income volatility. The Company is confident the new model will enable franchisees to invest in their business while attracting new, high quality franchisees and loan writers to the network. This will provide a platform for growth and underpin the long term sustainability of Mortgage Choice.

Key features of the new model, which will be offered to all franchisees on an opt-in basis from August 2018, include:

- increase in the average commission payout rate on residential lending from 65% to 74%;
- unique hybrid trail commission structure which pays the best monthly outcome on either a flow or book basis; and
- designed to reduce income volatility, providing better protection for franchisees in the event of a market downturn.

Susan Mitchell, CEO of Mortgage Choice, said all of the broker franchisees are likely to opt-in to the new model, as they will be better off financially.

“When we commenced discussions with franchisees, it was with a view to introducing a model that allowed them to earn more so they had the confidence to invest in their business, while still supporting them under a national brand with the services they value including IT, compliance, training, marketing and business planning. The hybrid trail commission structure we are introducing is unique. It rewards franchisees as they grow and provides better earnings certainty through periods of investment. We believe all franchisees will adopt the new model as it caters for businesses across the life cycle spectrum, from greenfield to more established brokers,” said Ms Mitchell.

To partially offset the impact of a higher average payout rate to franchisees, Mortgage Choice has initiated a program to improve operating efficiencies across its business. The Company is changing the way it delivers some of its core support services to franchisees as it moves to a more centralised, online and phone based model. It has commenced a program of implementing operational

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efficiencies across the business. This will result in an approximate 10% reduction in its operating expense base. Driving continual efficiency improvements will be a focus for the business over the next year.

The Company will continue to invest in its IT systems and expects to roll out its new broker platform in August, which will improve the customer experience and franchisee productivity.

“These changes are the product of extensive consultation with broker franchisees and the recognition we needed to rebalance our service provision with more competitive remuneration,” said Ms Mitchell. “Franchisees will have access to the same core services, just delivered in a more efficient way. At the same time, we are investing in a new Broker Platform that will improve broker productivity and enhance their service levels to customers.

“The demand for the services of a mortgage broker is strong and we believe these initiatives will provide the platform for a sustainable business model for Mortgage Choice and a framework for franchisees to succeed by helping more Australians make better financial choices.”

#### **Guidance**

Mortgage Choice expects its cash NPAT for FY2018 to be between \$23.2m and \$23.4m after accounting for one-off costs associated with redundancies and the change in CEO. As a result of the changes being introduced, there will be a one-off, non-cash negative adjustment of approximately \$30m to IFRS NPAT for FY2018 to reflect the higher level of franchisee share of future trail revenue. The Company’s full audited results will be released to the market on 21 August 2018.

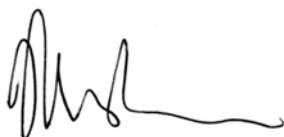
Assuming settlements at the same level as FY2018 and taking into account the new remuneration model and operational changes being introduced across the business, Mortgage Choice expects FY2019 cash and IFRS NPAT to be approximately \$16.5m.

#### **Teleconference and webcast**

The management of Mortgage Choice will hold a teleconference for investors and analysts today at 09.30am. The recorded webcast will be available on the Mortgage Choice website shortly afterwards. A copy of the presentation is attached.

Yours faithfully

**MORTGAGE CHOICE LIMITED**

A handwritten signature in black ink, appearing to read "David Hoskins", written over a horizontal line.

**DAVID HOSKINS**

**COMPANY SECRETARY**

12 July 2018

# New Remuneration & Service Model *Investor Presentation*

*Presented by Susan Mitchell (CEO)*



# Overview

**Mortgage Choice has initiated a Company wide strategic change program to provide a platform for growth and underpin the long term sustainability of the business**

- The program incorporates:
  - Introduction of new broker remuneration model to increase the share of revenue paid to franchisees to enable them to invest
  - Adjusted operating structure to drive greater efficiencies across the business
  - Ongoing investment in systems to improve the franchisee and customer experience
  - Continuing to integrate credit advice and financial advice utilising experts in each field
- Key objectives of this program are to:
  - Attract and retain high quality franchisees, loan writers and advisers
  - Attract and retain more customers by improving the customer experience
  - Grow home loan market share
- The new broker remuneration model will pay more to franchisees with an increase in the average payout ratio from 65% to 74%.
- Mortgage Choice will continue to provide the same core services to franchisees, just delivered in a more efficient way.

# Background

## Mortgage Choice's purpose is to help Australians make better choices for a better life

- Under our well-known and trusted national brand, we offer Australians choice and professional advice for their home loan, personal finance and financial planning needs. We do so via a national franchise network.
- Despite the strength of our brand and our customer offering, market share has been declining.
- Traditionally we have offered a full-service, branded model to support franchisees in setting up and growing a small business by providing business planning, marketing, IT, training and compliance support.
- While this has successfully supported the establishment of hundreds and hundreds of small businesses, the model has become less competitive.
- Undertook a comprehensive consultation process with franchisees and it became clear that we needed to increase remuneration while providing the same core services brokers value, just in a more cost effective way.

# Summary of Changes

- Most significant change program in Company's history
- Designed to provide a platform for growth and underpin the long term sustainability of Mortgage Choice by:
  1. Providing franchisees with higher remuneration and reduced income volatility
  2. Encouraging franchisees to invest in their businesses to service more customers
  3. Attracting new, high quality franchisees and loan writers to the network
  4. Continuing to provide high levels of service support
- Open to all franchisees on an opt-in basis
- Operational changes introduced to partially off-set financial impact
- Ongoing investment in Broker IT Platform to enable franchisees to operate more efficiently and deliver a better customer experience
- Expect all franchisees will adopt the new model due to being better off financially

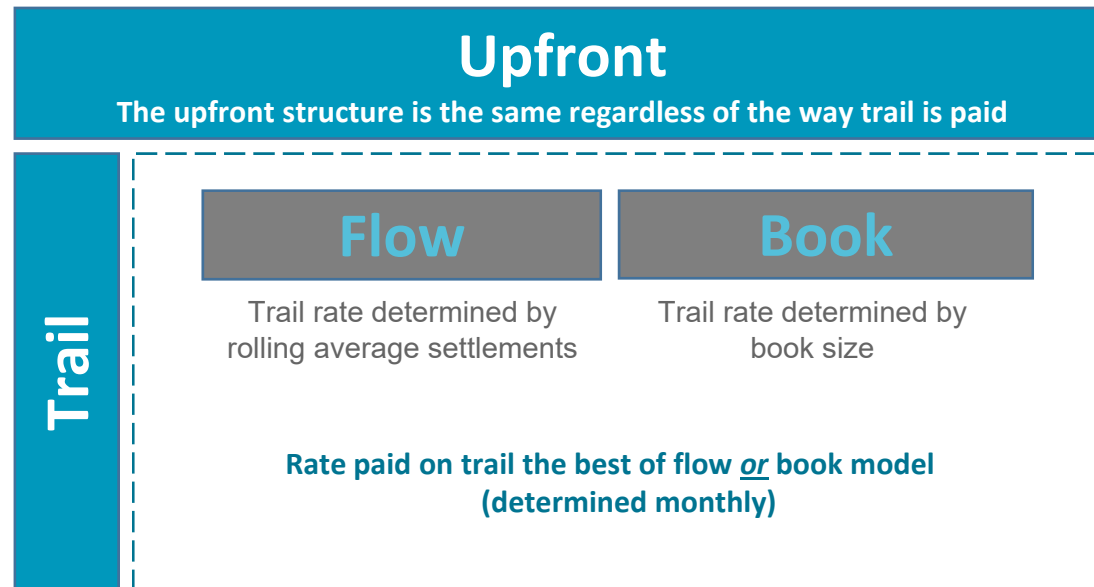
## Timeline:

- One-off costs associated with structural changes reflected in FY2018
- New model opt-in effective August 2018
- Continual review of operational efficiencies throughout FY2019

# New Model Features

Unique hybrid trail commission structure caters to the needs of franchisees throughout their business lifecycle – from greenfields to more established businesses

- Trail commission structure - best outcome on either a flow or book basis
- Rewards success and provides better earnings certainty through periods of investment
- Designed to reduce volatility
- Increase in the average payout rate from 65% to 74% based on current modelling
- Marginal increase in upfront payout rate, most of the increase is in the trail payout



# Key Operational Changes

Mortgage Choice will continue to provide a full service support model, just delivered in a more efficient way

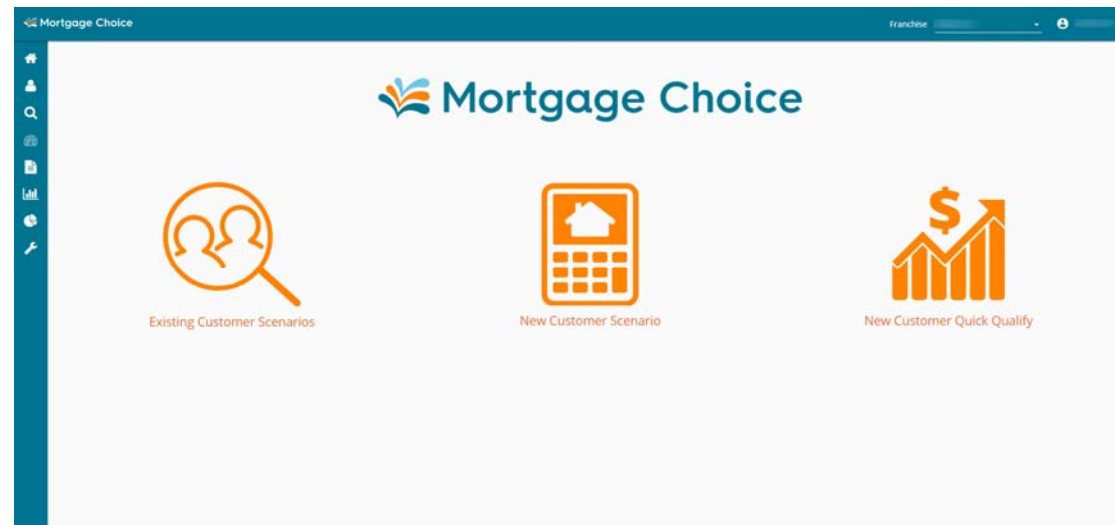
- Shift towards a more centralised, phone and web-based model
- Reduction in field-based roles
- Reorganisation of central support roles and reporting lines
- Creation of a new online HelpCentre for franchisee support
- Operating expense base reduced by ~10% while retaining the capability to support scale





# New Broker Platform

- Invested \$3.1m in FY2018 in new bespoke online Broker Platform
- Intuitive, integrated platform which will increase broker productivity and enable brokers to deliver a better customer experience
- Pilot program commencing July 2018 ahead of full roll-out from August 2018
- The Company will continue to invest in IT systems to improve the broker, adviser and customer experience and create operational efficiencies. It is expected that this level of investment will be in line with depreciation expense.



# Financial Impact and Guidance

## FY2018

- Cash NPAT expected to be between \$23.2m and \$23.4m
- ~ 10% decline in settlements year on year supports need for change
- IFRS NPAT to reduce by approximately \$30m due to one-off, non-cash adjustment to reflect the higher level of franchisee share of future trail commissions

## FY2019

- New model roll-out from August 2018
- ~10% reduction in operating expense base, effective 1 July 2018
- Cash NPAT expected to be approximately \$16.5m with similar IFRS NPAT

# Market Outlook

*Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Jun18 report*

## Mortgage Choice is well placed to adapt to market changes and take advantage of any emerging opportunities

- There are a number of headwinds facing the mortgage broking and financial planning industry
  - slowing housing market
  - potential outcomes from Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; ASIC Review into Broker Remuneration; Productivity Commission Review into Competition within the Financial Industry and Parliamentary Inquiry into the Franchising Code of Conduct
  - banks moving away from vertical integration
  - increased competition
- Some of the impacts are known, others are not. Mortgage Choice is actively involved in the Combined Industry Forum and supportive of the recommendations put forward to ASIC.
- Mortgage Choice has a robust compliance platform in place to meet its regulatory requirements and the platform can adapt if the requirements change.
- Mortgage brokers provide a valuable service to consumers. The percentage of residential home loans originated by a mortgage broker continues to climb, reaching 55.3% in the January – March 2018 quarter, up from 53.6% for the same period in 2017.
- The Company remains focused on ensuring consumers have local, professional experts they can turn to for advice.

# Summary

**Mortgage Choice has initiated a Company wide strategic change program to provide a platform for growth and underpin the long term sustainability of the business**

## **Key Priorities**

- Increase the number of high quality businesses and loan writers
- Drive greater operating efficiencies across the business
- Continue to invest in technology to improve the customer experience and increase broker and adviser productivity
- Grow market share
- Grow the financial advice business

# Disclaimer

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