

## ASX ANNOUNCEMENT

### **AGM Address by Chief Executive Officer**

Sydney, Thursday 21 November 2019

Attached is a copy of the address to be given by the Chief Executive Officer (Mike Wright) of **Xplore Wealth Limited** (ASX:XPL) (the Company) at the annual general meeting of the Company to be held today.

The full set of AGM presentation slides have been released separately.

### **Contact**

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Chief Executive Officer  
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# Agenda

- 1 Chairman
- 2 CEO Update
- 3 Formal Business



**Alex Hutchison**  
Chairman Xplore Wealth



**Mike Wright**  
CEO Xplore Wealth

## Introduction

Good morning ladies and gentlemen and thank you for making the effort to attend Xplore Wealth's AGM today.

I am thrilled to be here today, at my first AGM as CEO of Xplore Wealth.

It's exciting to lead an organisation that is embracing and well placed to benefit from the emerging opportunities within the Wealth Management Industry.

Before I get started there are four key messages from this presentation, I hope you take with you;

1. We are upgrading ... our ambition, culture, strategy and business
2. We are making progress ... on our 2020 priorities
3. We have expanded ... our Total Available Market with the aim to grow faster
4. We are well placed ... for the new wave of expected Retail Platform growth

The Advice industry is under mounting pressure from Government, regulators, big institutions and consumers.

The scrutiny following the Hayne Royal Commission fundamentally tested;

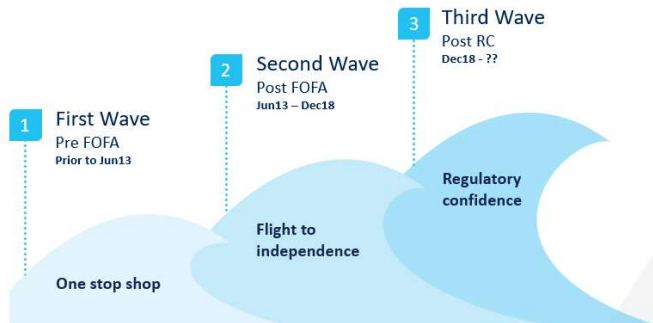
- business models,
- remuneration structures,
- revenue sources, and
- business valuations.

This has had implications for the Retail Platform Market, which is now expected to enter a new wave of growth - **"regulatory confidence."**

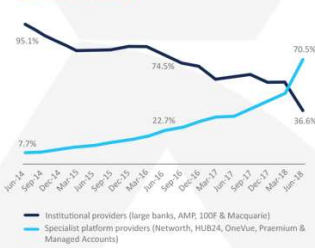
# Changing client requirements

Xplore Wealth is well positioned for the new wave of market change

**XPLORE**  
WEALTH



Market share percentage of net funds flows  
(12 month-rolling)



Source: Strategic insight: Analysis of Master Trusts, Platforms & Wraps Sept 2018

3 A WORLD OF INVESTMENTS

Xplore Wealth is well placed for the expected new wave of market change and growth.

“**The First Wave**” occurred in the early 1990s when Master Trust and Wrap structures were established.

These “**One Stop Shops**” provided;

- access to vast investments,
- clients in one portal, and
- timely reports.

This first wave did not come cheap.

The major banks & AMP had the resources and the motive, using their aligned advisers to distribute their product.

“**The Second Wave**” occurred when FOFA was legislated, creating a legal requirement to act in the clients’ best interest.

Accountability now sat squarely with the adviser.

Advisers questioned whether they could meet their legal obligations within big institutions.

A “**Flight to Independence**” occurred.

Advisers left big institutions, became independent business owners and used an independent platform, such as HUB24 or Netwealth.

In the last five years independent platform providers have increased market share from <1% to >5%, winning flows from big institutions.

Post the Royal Commission however, client requirements have changed.

“**The Third Wave**” is a flight to ‘regulatory confidence’. One stop shops and independence are still important.

Independent advisers want (and need) more support in providing quality and compliant advice.

# The regulatory load is significant

Xplore Wealth partners with our clients to enable greater regulatory confidence



Regulation & Industry	
Corps Act	Design and Distribution Obligations Part 7.8A, Conflicts Management FOFA – Conflicted remuneration, best interest duty s961B(i), Opt in – Part7.7A, RG245
ASIC Act	Consumer protection Part 2, Div 2, sub division D
SIS Act	Member Outcomes SPS 515, Fees s62, Conflicts Management RG181, s912A91)
AML/CTF Act	Electronic verification
Royal Commission	End grandfathering of conflicted remuneration by 1/1/21, Fee for no service, (~19 of 76 recommendations impacting advice)
RG148	
RG175	
RG179	ASIC MDA review
Dispute Resolution	AFCA
FASEA	Education requirements, Code of Ethics – ethic code by 1/1/20, Professional exam by 1/1/22, Qualifications by 1/1/26
Insurance	Premium increases , Class Actions
APRA SPS Standards	Rapidly changing

4 A WORLD OF INVESTMENTS

To bring the third wave to life, the vast majority of independently licensed advice businesses have less than 10 staff, made up of advisers and support staff.

The owners are often advising clients.

These businesses are stretched, isolated, and finding it harder to make any real profits.

Keeping abreast of the regulatory load is CHALLENGING!

As the table shows, there is a huge number of regulatory, legislative and professional standards all demanding competence.

As the big institutions exit advice, advisers have never felt more exposed.

Xplore Wealth is well positioned to partner with our clients, supporting them in gaining greater regulatory confidence ..... leveraging our strong foundations built over 14 years.

# Cornerstones of Xplore Wealth's success

**Our Purpose > Enabling our clients to confidently manage, protect and grow their client's wealth**

## What we do

Provide Investment Management, Administration and Superannuation services.

## Our clients

Independently licensed advice businesses, IFAs and full service stock brokers.

## What we are not

We do not manufacture technology, we partner with global firms.

## Our Values

- Client confidence
- Empowering
- Simplify complexity
- Professionalism
- Entrepreneurial
- Respect

## Our Strategy



**An empowering Platform** – three offers to help advisers to deliver the *right offer, to the right client at the right time*.



**Tailored Investment Management Services** – flexible structures and services to help our clients create and operate the *most appropriate* Investment Management capability.



**Delivering expertise and insights** – deep investment management and regulatory compliance expertise enabling our clients to operate with confidence. *Professionals making the complex simple and attainable.*

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Our purpose is an honourable one - focused on enabling our clients to confidently manage, protect and grow their clients' wealth.

### What we do drives our purpose.

1. Tailored Investment Management Services,
2. Quality Investment Administration Services, and
3. Broad Superannuation Services.

Our clients are independently licensed advice businesses, independent Financial Advisers (IFAs) and full service stock brokers, who tend to advise High Net Worth Individuals (HNWI) clients.

We deliberately don't compete with our clients, so we too are independent.

We are not a technology company, though technology is a critical success enabler. We partner with global firms such as Securities Software & Consulting (SS&C) and JP Morgan.

Our values guide our organisation's decision making and support us to achieve our purpose and strategy.

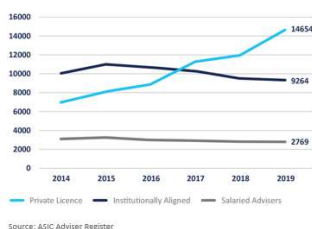
Strategically there are three cornerstones.

1. Provide an empowering platform that provides real choice
2. Offer tailored investment management services
3. Deliver expertise and insight to assist regulatory confidence

# Multiple revenue growth levers

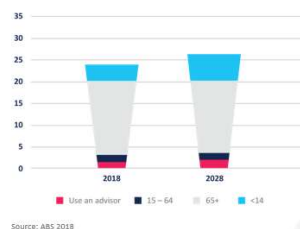
Size of Xplore's revenue = no. Advisers x avg no. Clients x avg Cost to clients

**Number of IFAs predicted to keep growing**  
Growth in Privately Held Adviser Licenses



- Advisers on ASIC F.A.R expected to fall 15-20% by 2026 due to:
  - Grandfathered commissions removed
  - FASEA education standards drivers
- IFAs will likely continue to grow

**Those seeking advice expected to keep growing**  
Adviser Market



- Advised Australians predicted to double by 2028 to 4m, due to:
  - Ageing demographic
- Expect more retirement advice due to unique risks

**Cost of Advice likely to increase**  
Cost by type of advice (illustrative)



- The cost of holistic advice likely to be repriced due to:
  - Product subsidisation ceasing,
  - Compliance and regulatory costs rising
- Reduce client impact via improvements and technology

Xplore Wealth has multiple revenue levers to drive growth which is represented by a simple revenue formula.

**Revenue Size = no. Advisers x (no. Clients per Adviser x avg Cost to client)**

We are an advised only business so growing the number of advisers is important.

We expect our target advisers, IFAs, will continue to grow .....

... whilst we expect advisers tied to big institutions will continue to decline.

Growing the number of clients using Xplore Wealth is essential.

The number of advised Australians at the last ABS was 1.96m, which is likely to double by 2028.

The core driver is an ageing demographic.

The great migration from ACCUMULATION to INCOME phase is occurring.

Retirement brings unique risks such as longevity which demands careful consideration.

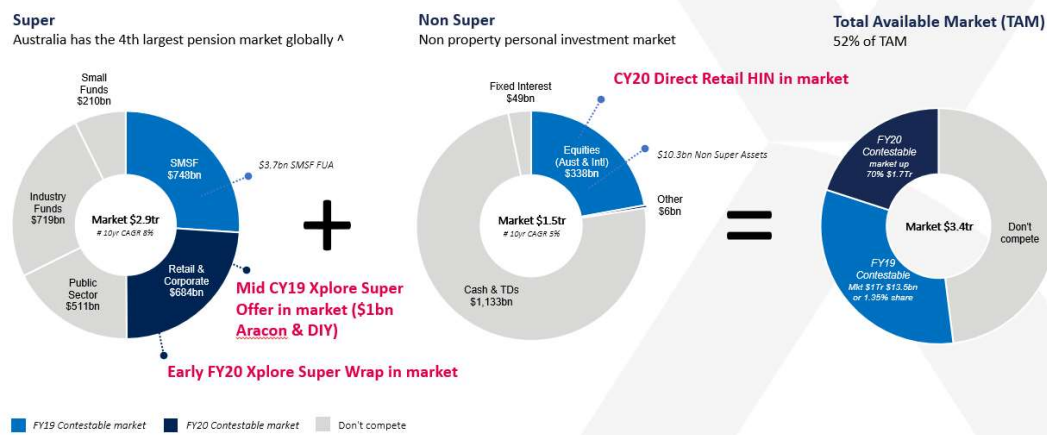
Finally charging the right mix of client fees is critical.

With the cost of Financial Advice to clients rising, Xplore's price settings must support advisers in minimising the impact to their clients.

Competition, continuous business improvement, and technology will help.

# Expanding our market opportunity

Xplore Wealth has grown its Total Available Market by over 50%



In FY20 we expanded our Total Available Market significantly.

We now compete in 52% of the total market.

Three offerings have significantly increased our Total Available Market from 1.1Tr to 1.7Tr;

1. **Retail Super Wrap**, taken to market July 2019
2. **Super Fund offer**, taken to market late FY19
3. **Retail Direct HIN offer**, due CY20

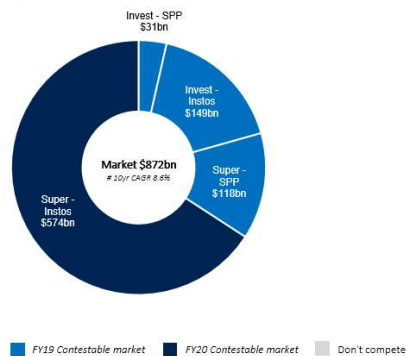
## Expanding our key markets

Xplore Wealth has significant market share growth opportunities in key markets

### Retail Platform Market

Retail and Specialist Platform Providers (SPP)

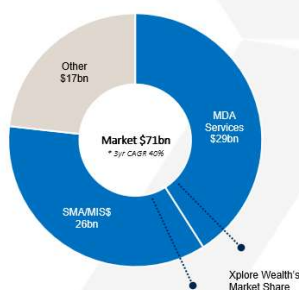
Xplore Wealth has 1.5% market share



### Managed Account Market

IMAP market sizing 2018

Xplore Wealth has 7.5% market share



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Xplore Wealth has significant market share growth opportunities in key markets.

We can now compete fully in the Retail Platform Market.

We can now target flows from large institutions, with Retail SUPER WRAP.

Xplore Wealth's current share is 1.5%.

The Managed Account market in Australia is still relatively small at \$71bn.

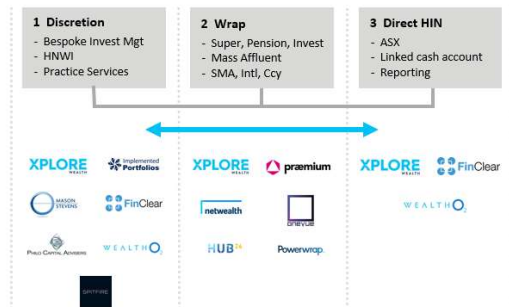
Xplore Wealth has \$5.3bn or a 7.5% share, with ~16% held in International Assets.

The Managed Account market is small however it is growing fast

# An empowering Platform with choice

Xplore Wealth's empowering platform to support regulatory confidence

## 1 An aligned platform with up to three offers



## 2 Plus choice features

Platform Offers	W/sale	White labelled	Manage MA	Investors	Direct Intl Mkts	FX
Discretion (MDA)	Yes	Yes	Yes (MDA & models)	SMSF, Investment	Yes	Yes
Wrap (retail super)	No	Yes	Yes (models)	Super, SMSF, Pension, Investments	Yes	Yes
Direct HIN	Yes	Yes	Yes (models)	SMSF, Investment	No	No

A Platform > Empowering, Choice, Aligned

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We believe Xplore Wealth has an empowering platform.

It provides real choice to advisers and full service stockbrokers.

We are distinctive - one aligned platform with three distinct offers.

We are also truly independent with no aligned advice AFSL or proprietary Managed Accounts.

We support the third wave in platform growth - "flight to regulatory confidence."

First choose between the offers ....

- 1 Discretion
- 2 Wrap
- 3 Direct HIN

.... then decide on the various features such as wholesale offer? white label? Managed Account? and direct access to international markets?

As advised clients' circumstances change, they could possibly move into another offer.

We empower advisers, enabling them to act in the best interests of their client.



# Executing our growth strategy

We have prioritised, we are executing, we are getting things done



**One Platform program**  
To create business efficiencies and savings.

**Sept19**

- ✓ SS&C contract renewed (back end tech)

**Nov19**

- ✓ JP Morgan contract signed (global custody)
- ✓ Launched w/sale MDA (selected clients)
- ✓ Designed new Retail Direct HIN offer



**Upgrading the business**  
With a winning three year strategy.

**Sept19**

- ✓ Four new executives in the last six months

**Oct19**

- ✓ Aligned all staff KPIs & incentives

**Nov19**

- ✓ 3year strategic review underway
- ✓ Redesign structure for planned growth & efficiency



**Take to Market Plan**  
With the purpose of sustainably growing our business.

**Sept19 – Oct19**

- ✓ Met MDA, Wrap and Super clients

**Nov19**

- ✓ Take to Market plan finalised
- ✓ Workshops on new Retail Direct HIN offer with clients

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A WORLD OF INVESTMENTS

We have prioritised, we are executing, and we are getting things done.

Key call outs are ...

Under creating business efficiencies & savings via our One Platform Program we have;

- Renewed the contract with global Technology provider SS&C for all our back end trading needs, and
- Signed a contract with JPMorgan for global custody services for all of our businesses.

In terms of upgrading our ambition, culture, strategy and business we have;

- Commenced a three year strategy review
- Hired a new Head of Distribution and Marketing

Plan to sustainably grow our business through a strong distribution plan

- Met existing clients to diagnose issues and opportunities
- New Retail Direct HIN offer workshopped with clients for CY20 launch
- Take to Market plan finalised

We still have much to do and will remain focused on these priorities.

# FY20 Update

Operating results YTD , favourable when compared to the same time last year.

## FUA Update

- FUA at 31 October 2019 up 7% on 30 June 2019
- Positive net inflows YTD, with the September quarter up \$232m

## Client Update

- Integration of Xplore Wrap, incl Super & Pension Wrap into the broader market offer
  - 6 Distribution Agreements signed, Oracle commenced onboarding, 5 others at build stage
- 2 new MDA clients have started onboarding, Pivot-PAC Capital and First Point
  - 5 new clients at Due Diligence stage and expected to move into the Build stage
- 2 new sub plans approved for the Aracon Superannuation fund (Elevate and Fairvine)

## Other

- Cash of \$3.4million received to finalise outstanding GST claims with the ATO
- Key initiatives undertaken to reduce operating costs
  - New Custody agreement signed with JP Morgan
  - New long term agreement with SS&C under more favourable terms
- Linear software write down \$10.8m

Operating results YTD are favourable compared to the same period last year.

This is driven primarily by the positive impact of the acquisitions made late CY18 and business growth within expectations.

Additional call outs not mentioned already ...

## FUA Update

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- Key initiatives undertaken to reduce operating costs
- New Custody agreement signed with JP Morgan
- New long term agreement with SS&C under more favorable terms
- Our decision to transition our back end trading needs to SS&C, means the carrying value of the Linear software will be written off this financial year
- The \$10.8m write off will not impact FY20 EBITDA or cashflow however, will impact NPAT

## Conclusion

Upgrading for planned growth

### Our future is bright

- We are upgrading our ambition, culture, strategy and business
- We are making progress on our 2020 priorities
- We have expanded our Total Available Market with the aim to grow faster
- We are well placed for the new wave of expected Retail Platform growth

In conclusion we are upgrading for planned growth. The key messages are ...

1. We are upgrading ... our ambition, culture, strategy and business
2. We are making progress ... on our 2020 priorities
3. We have expanded ... our Total Available Market with the aim to grow faster
4. We are well placed ... for the new wave of expected Retail Platform growth

We have a bright future.

Thank you.