

## **ASX AND MEDIA RELEASE**

**20 February 2020**

### **FINANCIAL RESULTS FOR HALF YEAR ENDING 31 DECEMBER 2019**

We are pleased to report the Sequoia Financial Group Ltd (**Sequoia** or the **Company**) (ASX: SEQ) financial results for the half year ending 31 December 2019.

Over the last twelve months the business has undergone several changes, including changes to the Board, Executive team and a full review of each Business Unit (**Sectors**). We also introduced more rigor into our performance management and increased resources and emphasis on risk and compliance functionality.

In the last results update, we discussed five core priorities.

1. Setting an accurate expense base platform for each sector, including a more appropriate allocation of Head Office expenses, so that each sector's results were an accurate reflection of its performance.
2. Determining which sectors had the ability to drive operational profit and strong cash flow simultaneously, thus ensuring we were allocating our capital most effectively.
3. Driving revenue growth across all sectors in order to maximize the benefits of SEQ's multiple channel distribution, including the cross selling of product where it was suitable for our clients.
4. Moving the consolidated business towards our publicly stated medium term target of generating 15% on the operational equity in each sector.
5. Reducing group debt to improve the Balance Sheet and provide more capital to invest in organic growth and fund future acquisitions.

Our newly formed executive team commenced in February 2019 and they collaborated to develop a three-year Strategic plan that commenced in March 2019.

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#### **ABOUT SEQUOIA FINANCIAL GROUP LIMITED**

ASX-listed Sequoia Financial Group Limited (ASX: SEQ) is an integrated financial services company providing products and services to self-directed retail and wholesale clients and those of third party professional service firms.

It provides:

- Investment and superannuation products
- Wealth management and advisory services
- Corporate advisory and capital markets expertise
- Retail, wholesale and institutional trading platforms
- Market data and financial news services

Sequoia operates various AFS Licenses and its subsidiary Morrison Securities Pty Ltd is an ASX Market Participant.

Whilst respectful of a need to generate positive short-term results, the focus of the Strategic Plan was improving our capability in both operational processes and human resources capital, with the impact of this allowing Sequoia to grow and become a larger and more robust business.

Sequoia's Mission is to build a brand that is recognized as the premier, non-aligned financial services licensee advice business in Australia.

We recognize Australians in general have lost confidence in seeking advice, and this is harmful for an ageing population who needs it.

We aim to increase consumer confidence by providing advisers with world-class education, strong compliance oversight and a broad range of non-aligned products to recommend. This will be supported by a range of associated services that will keep the cost of advice at a price point where all parties can realize the value / benefit of the adviser engagement.

In reporting results today, we are pleased to confirm initial positive progress on all five of these priorities in this period.

1. **Operating profit** for the corresponding half-year period improved from \$146K to \$1,442K.
2. **Operating cash** flow improved from a negative operating cash loss of (\$2.5M) to a positive cash flow result of \$2.0 M.
3. Whilst reported **Revenue** was down from \$44M to \$41M, the cash receipts from customers were up from \$44.6M to \$47.6M with what we consider to be the core-reported revenue up approximately \$5M from \$24M to \$29M.

The core revenue for this exercise excludes revenue from 'specialist product' sales, which were down \$8.4M from \$20.7M to \$12.3M for the corresponding period.

We expect revenue in this area to stabilize at around the \$25 million annualised level equivalent to what has been reported in this half year.

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The core growth area for Sequoia looking forward is the advice-based revenue coming from the Wealth Management sector, the Equity markets sector and our Professional Services sector.

Pleasingly revenue in Wealth Management increased by over 30% from \$14.8M for the corresponding half year to \$19.6M.

We expect continued double-digit growth in revenue for this sector over the long term as we increase adviser numbers and acquisitions such as the YBR wealth arm begin to be realized.

Within the Equity Markets sector, Morrison's clearing revenue increased by over 20 % from \$4.6M to \$5.6M in the corresponding period. We expect further growth in the business over the next 6 months as more APRA regulated super funds, fund managers, AFSs and sophisticated investors engage with our direct B2B service offering. The significant investment in transforming Morrison's from a small B2C clearing and execution business into a position where it can achieve appropriate scale is now complete.

The Professional Services sector has experienced a level of strong recent enquiry from accountants and financial planners looking to outsource to our SMSF and legal start up offerings. We are also actively pursuing other avenues to grow our market share in this area and expect meaningful EBITDA contribution from this division on coming years.

4. The significant improvements in Wealth Management, Equity Markets and Professional Services throughout this period were very pleasing, however, the Direct sector's result was disappointing.

Action has been taken to reduce our expenses in the Direct sector during the last 3 months, and parts of this business may be divested or merged within our other sectors in order to improve our return on total equity for all sectors within the group.

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Given our current shareholders' equity is around \$31.6 million, the Group's half year operating result of \$1.4M equates to an annual operating return of 9.14%, so we are still well below our mid-term target of 15% however the Operating Cash generated in the half year of \$2.0M is closer to what we have set as a short-term goal.

5. Most pleasingly of all in this result was the improvement of the **Balance Sheet**. Without a need to raise any additional capital from shareholders, debt was significantly paid down from \$2.37M to \$0.3M.

Cash levels remained strong and more accessible as a result of regulatory capital cash at bank required to be held in Morrison's being reduced by the ASX in November 2019 down to \$7.5M from a high of \$14M when we first commenced clearing under that entity.

In addition to debt reduction, we made Tranche 1 payment for the acquisition of Libertas from cash reserves.

In finalising the summary of this half year results I would like to acknowledge shareholders for continuing to support Sequoia throughout a relatively turbulent transition period where our share price has fallen, and further acknowledge our staff who have endured a lot of stress in a period of significant change management.

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