



# FY20 FIRST HALF

Results Presentation and Strategy Update

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21 February 2020



# DISCLAIMER

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All numbers are as at 31 December 2019 unless otherwise stated. Numbers may not add up due to rounding.

# SUMMARY

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## Financial Results

- Adviser fees up 37%
- Positive EBITDA (excluding legacy claims)
- Strong balance sheet with \$7.1m in cash and \$15.5m in net assets

## Industry Opportunities

- 55 new licensed advisers and 10% increase in net adviser numbers
- Focussed on delivery of services to adviser community
- Industry dislocation to continue, presenting growth opportunities

## Priorities

- Drive organic growth in advisers
- Pursue inorganic opportunities
- Refine cost base throughout revenue model transition
- Progress capital management initiatives and leverage strong balance sheet for growth

# Financial results





# 1H20 FINANCIAL RESULTS

\$m	1H19 <sup>1</sup>	2H19 <sup>1</sup>	1H20
Gross Profit	16.1	14.6	14.1
Management Expenses	(13.8)	(13.9)	(13.9)
<b>EBITDA (excl. Legacy Claims)</b>	<b>2.3</b>	<b>0.8</b>	<b>0.2</b>
Legacy claims <sup>2</sup>	0.1	(0.3)	(0.8)
<b>EBITDA</b>	<b>2.4</b>	<b>0.5</b>	<b>(0.6)</b>
Depreciation, amort., impairment, finance costs	(0.8)	(1.0)	(0.6)
<b>Profit/(loss) before tax</b>	<b>1.6</b>	<b>(0.5)</b>	<b>(1.2)</b>
Tax	(1.6)	(1.2)	(0.3)
<b>Net profit/(loss) after tax</b>	<b>0.0</b>	<b>(1.7)</b>	<b>(1.5)</b>

## Key points

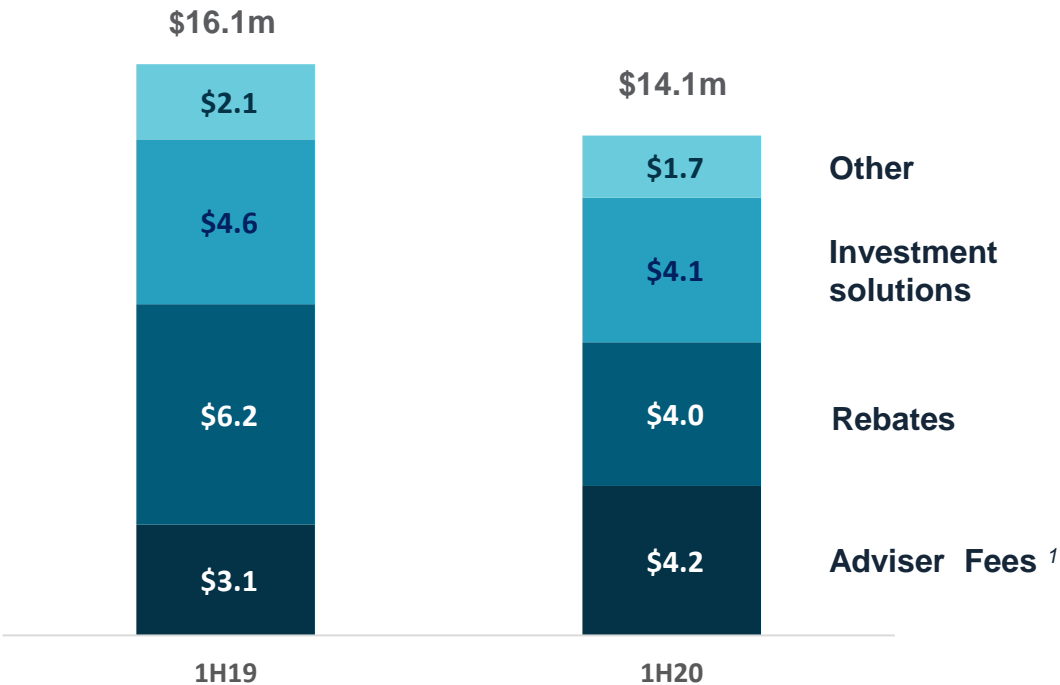
- Gross profit down on 2H19 due to continued rebate run-off
- Management expenses flat despite investment in Strategic Refresh transformation
- Delivered a positive EBITDA (excluding legacy claims)
- One-time increase in legacy claims due to AFCA time extension <sup>2</sup>

1. AASB16 1H20 impact added to prior periods 1H19 and 2H19 for comparative purposes

2. Under a temporary extension to its rules, AFCA may consider claims for advice given at any time after January 2008, extending the retrospective period for claims to be considered. Of the \$0.8m legacy claims expense during the half year period, \$0.6m relates to the AFCA extension for legacy claims. The temporary extension ends on 30 June 2020.

# REVENUE DRIVERS

## Strengthened revenue mix

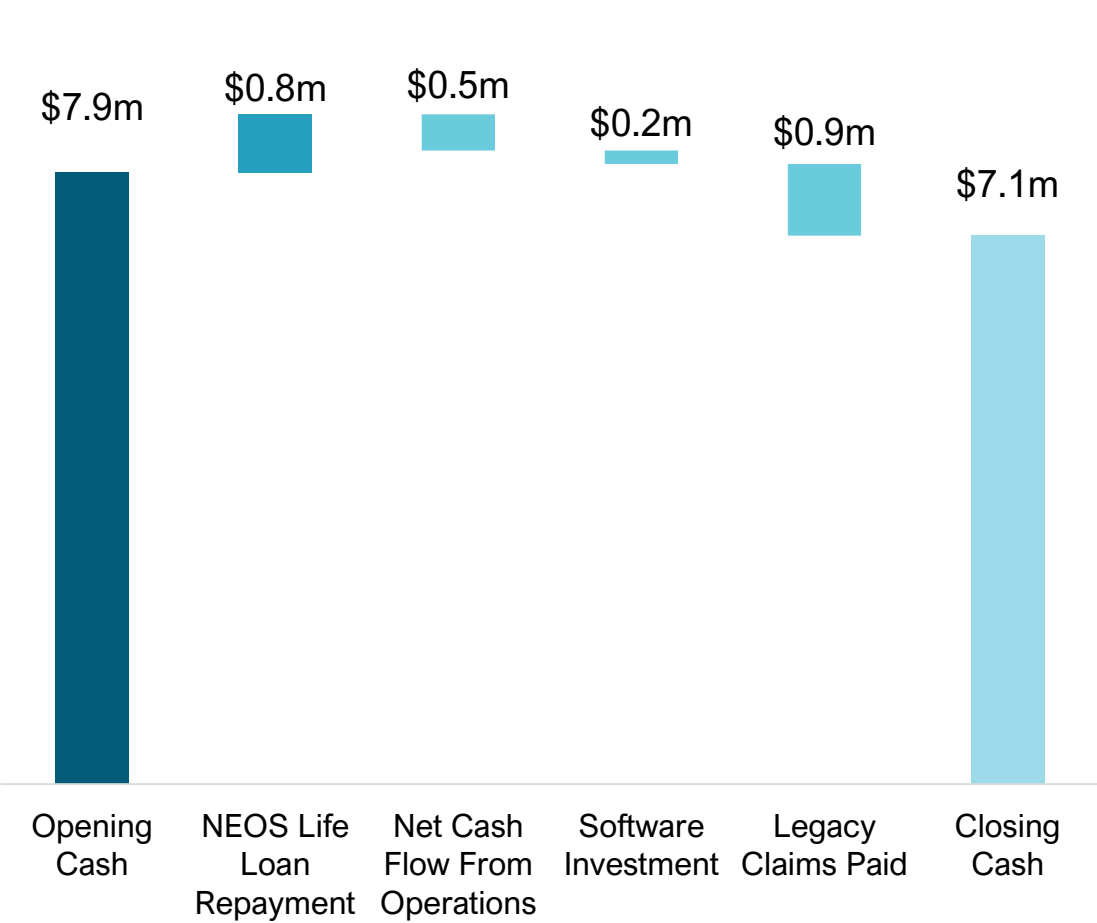


## Key points

- Adviser fees up 37% due to strong adviser growth and transition to new pricing model
- Recurring adviser fees now largest source of revenue
- Legacy product rebates down 35% due to industry outflows and regulatory change
- Investment Solutions margin down 12% due to competitive pressure

1. AR fees includes all revenue earned directly from advisers, inclusive of core and variable service fees

# CASH FLOW



## Key points

- Closing cash position of \$7.1m
- Neos Life loan repayment \$0.8m
- Software investment of \$0.2m for online adviser portal, Centrepont Connect

# GROUP BALANCE SHEET

\$m	FY19	1H20
Cash & Term Deposits	7.9	7.1
Loans Receivable	6.6	5.9
Claims Provision	1.3	1.0
<b>Net Assets</b>	<b>16.9</b>	<b>15.5</b>
Net Tangible Assets	11.8	10.8
Net Tangible Assets (cps)	7.9	7.3
Income Tax Losses	47.9	51.4
Franking Credits	17.5	17.5

## Key points

- Loans receivable includes \$5.2m from Neos, of which \$1.8m is scheduled to be repaid by June 2020
- Substantial franking credit balance available of 12 cents per share
- Strong balance sheet positioned to support growth and capital management initiatives



An aerial photograph of a rugged, dark rock coastline. In the upper right, a rectangular swimming pool with a wooden deck is built into the rocks. The water in the pool is a clear, light green. To the left of the pool, the ocean is turbulent, with white foam from breaking waves crashing against the dark, jagged rocks. The overall scene is dramatic and scenic.

# Strategy update



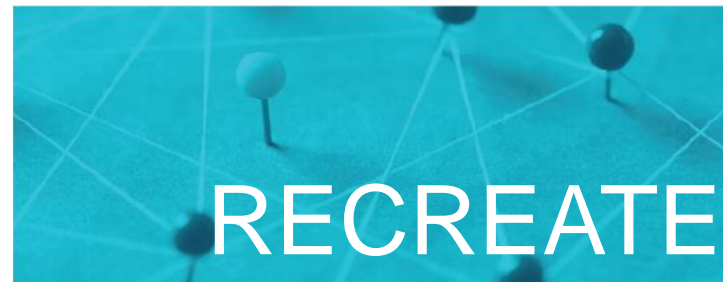
# CENTREPOINT RESET ITS STRATEGY IN AUGUST 2018 IN ANTICIPATION OF CURRENT MARKET DISRUPTION

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## STRATEGIC REFRESH, AUGUST 2018



**Focus** on our community of advisers and the value financial advice brings to the Australian community



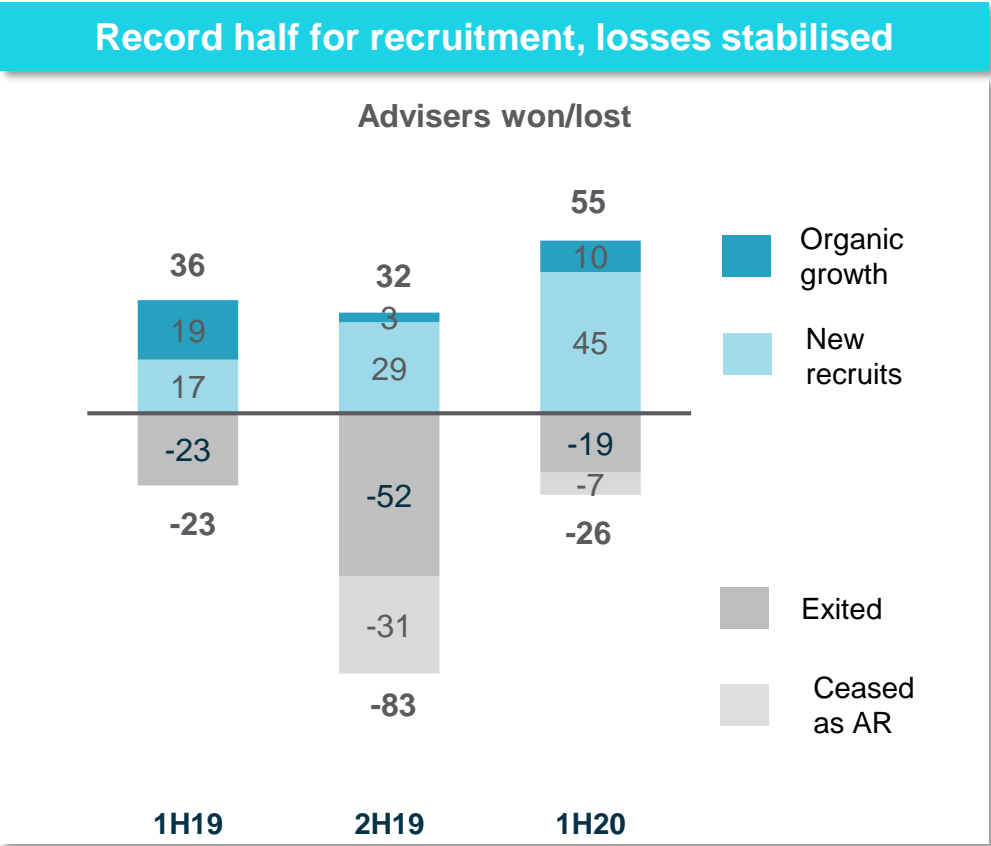
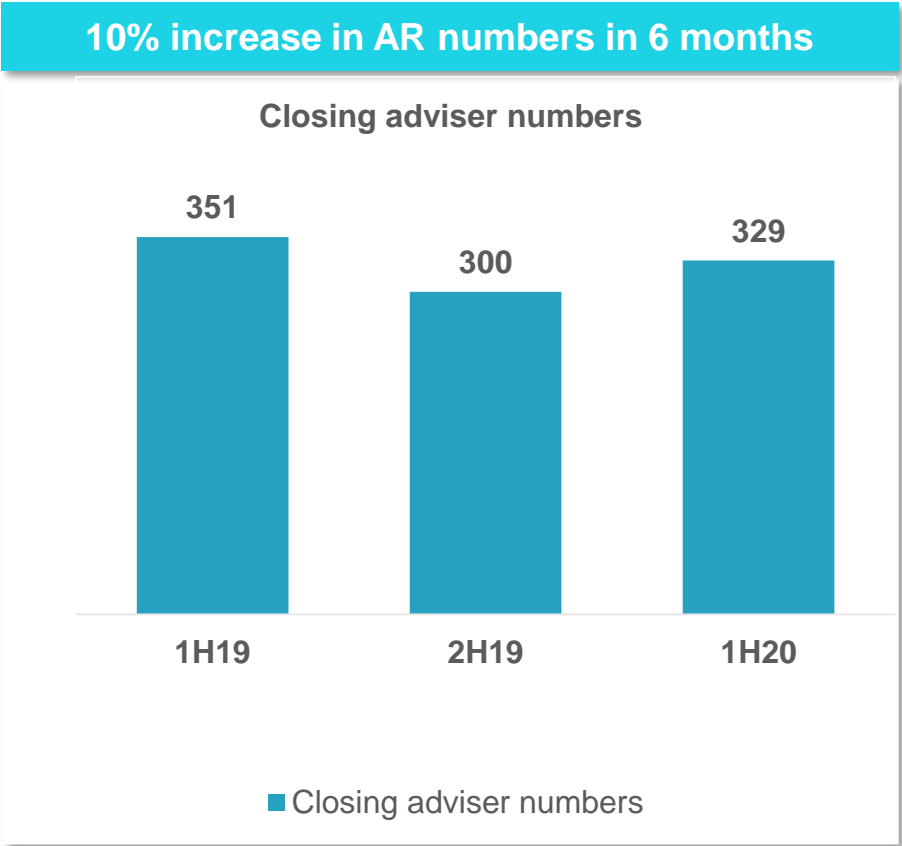
**Recreate** a new offer that will position Centrepont as a leader in the provision of advice and business services



**Grow** differently and aggressively to build scale as the industry dislocates

# OUR STRATEGY IS DELIVERING STRONG GROWTH IN ADVISER NUMBERS

## Licensed advisers



# CENTREPOINT EXISTS TO HELP ADVISERS THRIVE IN BUSINESS AND IS FOCUSSED ON DELIVERING SERVICES AT SCALE



**1,353**  
advisers attended  
masterclasses  
& PD days

**4,617**  
CPD HOURS  
LOGGED



**28**  
masterclasses  
and PD days held

**12**  
webinars  
held

**731** **ADVISERS**  
attended webinars

**560**  
Audits completed

**2,166**  
Coaching interactions



**9,600**  
Enquiries handled by  
CECs

**16** Regulatory  
updates



**69**  
Research reports  
produced

**\$45.9m**  
advice revenue processed



**6,426**  
Advice revenue  
enquiries

**1,866** Technical team  
enquiries



INSTRUMENTAL IN THE PAYMENT OF  
**\$14m**  
of life insurance claims

**3,750**  
adviser enquiries



**9,876**  
Advice technology  
enquiries received

**5** COMPASS  
training  
sessions

**6** WEBINAR  
training  
sessions

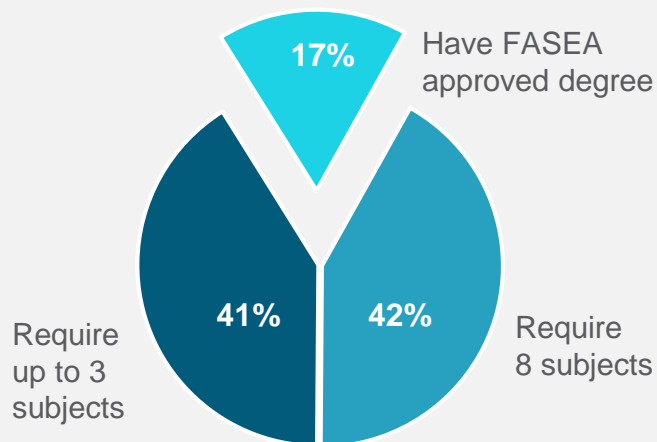
\* Source: Centrepont Alliance internal management information

# CENTREPOINT'S SERVICES AND SUPPORTIVE ADVISER COMMUNITY ARE HIGHLY VALUED AT A TIME OF INTENSE PRESSURE FOR ADVISERS

## Education requirements

- Purpose is to raise minimum education standard to degree level

Adviser education gap, Jan 2020 <sup>1</sup>



Loss of productivity due to study requirements

## Code of Ethics

- Purpose is to transform financial advisers into a profession
- Imposes ethical duties that go beyond requirements of the law
- 12 standards and 5 values, effective 1 Jan 2020
- Principle-based, guidance is illustrative not definitive
- Requires fundamental review of remuneration and referral arrangements

Uncertainty about future business models

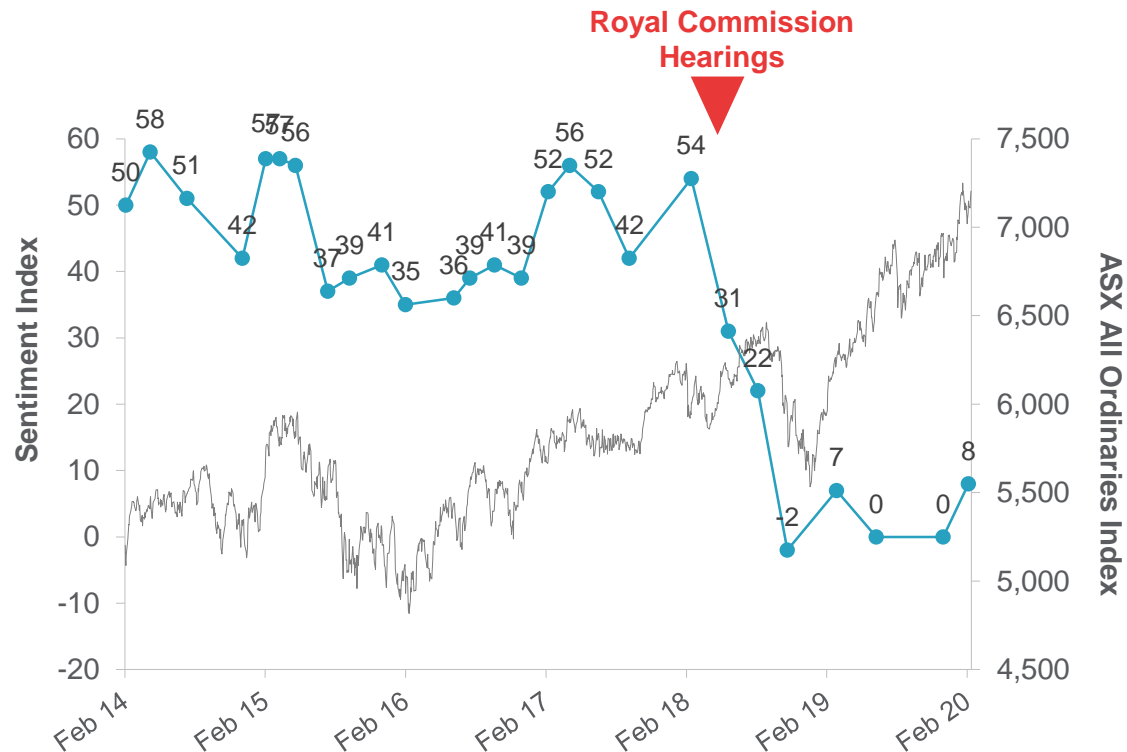
## Royal Commission Recommendations

- Purpose is to improve customer centricity and professional standards, and remove conflicted remuneration
- Most recommendations implemented or subject to legislation by July 2020
- Key implications:
  - Ban grandfathered commissions
  - Annual renewal of ongoing advice
  - Licensees to report misconduct
  - Driving industry business model change

Loss of revenue, increased costs, lower business valuation

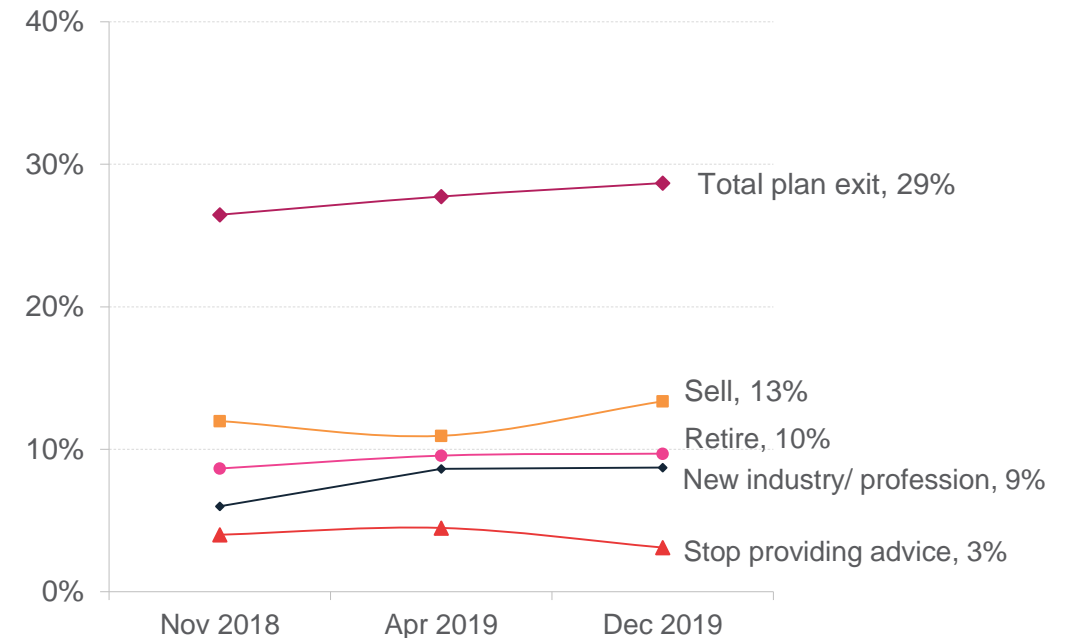
# ADVISER SENTIMENT IS AT ALL TIME LOWS AND INCREASING NUMBERS ARE PLANNING TO EXIT THE INDUSTRY

## Adviser sentiment



- Adviser sentiment 'de-coupled' from market sentiment at the time of Royal Commission, and remains at all time lows

## Adviser intentions: Next 3 years

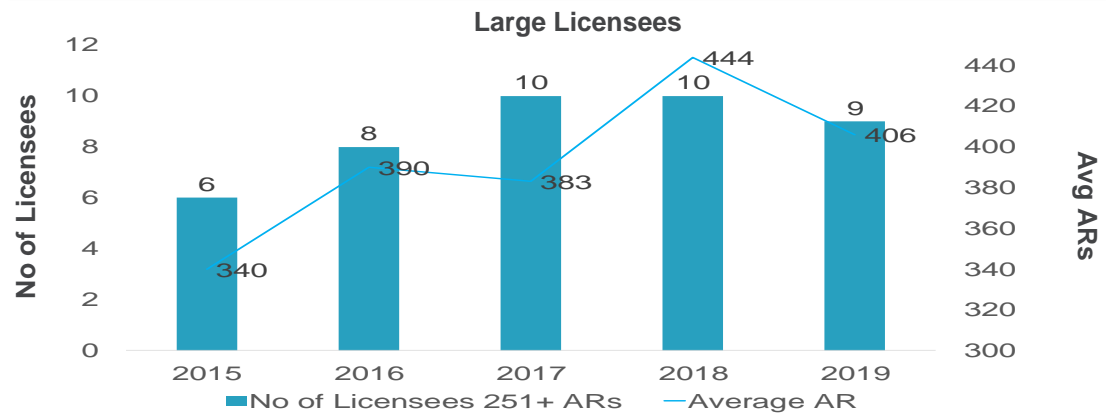


- 29% of advisers plan to exit the industry within the next three years

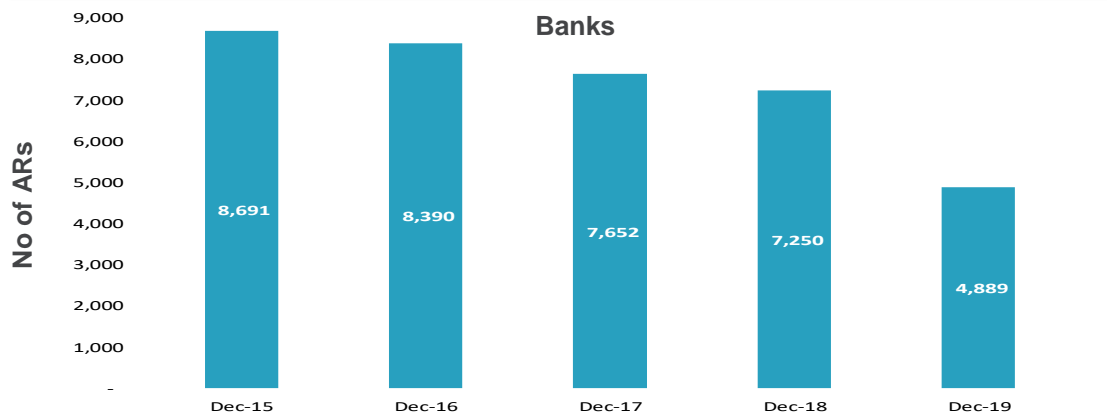


# INDUSTRY DISRUPTION WILL CONTINUE TO UNFOLD, ESPECIALLY AMONG SMALLER LICENSEES

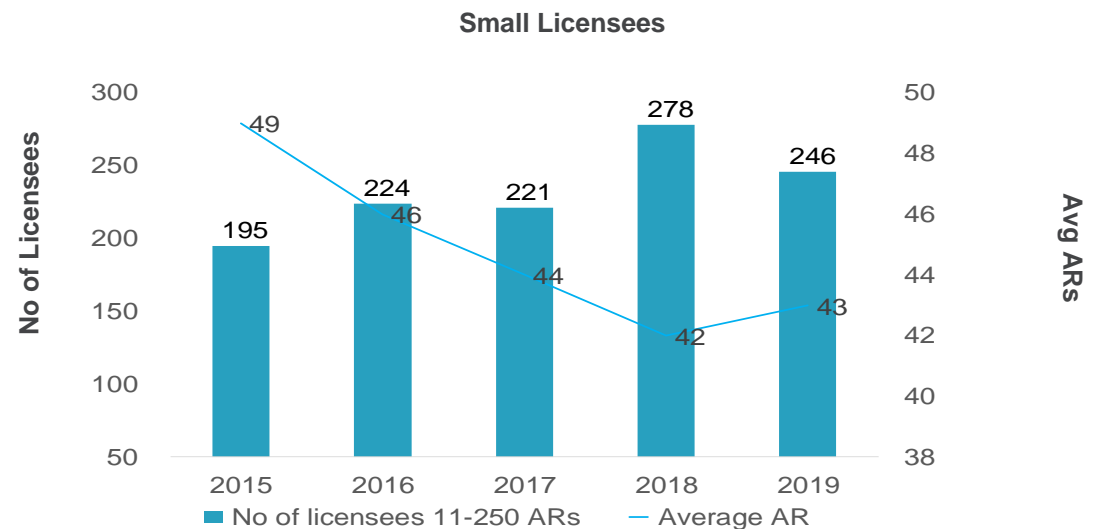
## Large licensees are growing



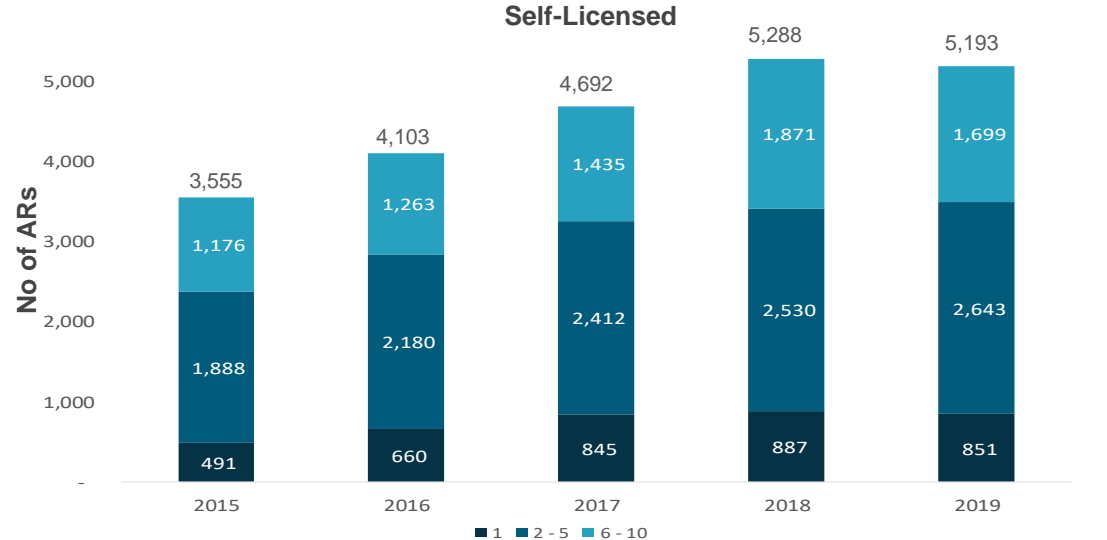
## Banks are exiting wealth



## Small licensees are fragmenting



## Self-licensed firms are proliferating



# AMIDST DISRUPTION, THERE ARE CLEAR OPPORTUNITIES FOR GROWTH

## Large licensees are growing

- Centrepont's core market
- Strategic advantages:
  - First large licensee to move to fee-based model
  - Scalable service platform

## Banks are exiting wealth

- Organic growth opportunity:
  - Attract dispossessed advisers to our licence
  - Growing market for self-licensed services

## Small licensees are fragmenting

- Organic growth opportunity:
  - Wholesale offer for sub-scale licensees to join as a single line of business
- Inorganic growth opportunity:
  - Acquire or merge with sub-scale licensees

## Self-licensed firms are proliferating

- Organic growth opportunity
  - Growing market for self-licensed services
  - Leverage scalable service platform

# THE VARIOUS MARKET SEGMENTS PROVIDE DISCRETE OPPORTUNITIES TO LEVERAGE CENTREPOINT'S SCALABLE PLATFORM OF SERVICES

	Licensee Core business	Self-licensed Extension	Wholesale Licensee New offer
Definition	Large licensee for individual advice practices	Service provider for small self-licensed firms	Licensee and tailored service solution for larger firms
Target segment	Small firms (1-5 advisers)	Small firms (1-5 advisers)	Medium sized firms (20-100 advisers)
Client need	AFSL Advice & business services	Advice & business services	AFSL Outsourced services at scale
Revenue model	Annual subscription fee per adviser	Annual subscription fee per service module	Bespoke annual fees priced for risk

## Scalable service platform

### Governance services

 **1,353**  
advisers attended masterclasses & PD days

**560**  
Audits completed

**\$45.9m**  
advice revenue processed

### Advice services

**3,750**  
adviser enquiries 

### Business management

**28**  
masterclasses and PD days held

**12**  
webinars held

**2,166**   
Coaching interactions

### Client growth

 **6,426**  
Advice revenue enquiries

INSTRUMENTAL IN THE PAYMENT OF  
 **\$14m**  
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 **69**  
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 **9,876**  
Advice technology enquiries received

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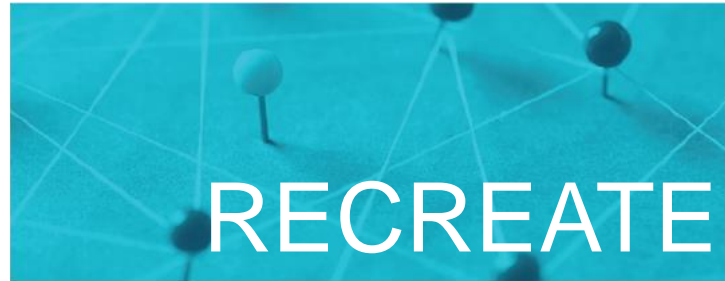
**5** COMPASS training sessions | **6** WEBINAR training sessions

 **9,600**  
Enquiries handled by CECs

**4,617**  
CPD HOURS LOGGED 

## WE HAVE THE RIGHT STRATEGY AND A CLEAR SET OF PRIORITIES

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- Drive organic growth in the licensed and self-licensed network
- Pursue industry consolidation opportunities
- Continue to refine cost base while transitioning to recurring fee-based model
- Progress capital management initiatives, leveraging strong balance sheet



# Appendices

# CENTREPOINT'S ADVICE NETWORK

## 110 (WA)

Self Licensed	85
Corp - Licensed	24
Salaried	0
Mortgage Brokers	1

## 183 (SA)

Self Licensed	144
Corp - Licensed	29
Salaried	0
Mortgage Brokers	10

## 18 (TAS)

Self Licensed	8
Corp - Licensed	10
Salaried	0
Mortgage Brokers	0

**Sources:** ASIC Financial Advisers Dataset as of 02/01/2020; Centrepoint Analysis. Per ASIC register, Centrepoint advisers add up to 347 (Professional Investment Services & Alliance Wealth). Difference between the ASIC register and the above reported number is attributed to Centrepoint self licensed advisers, employees and timing adjustments



## 744 (QLD)

Self Licensed	541
Corp - Licensed	138
Salaried	2
Mortgage Brokers	63

## 511 (NSW)

Self Licensed	398
Corp - Licensed	66
Salaried	2
Mortgage Brokers	45

## 15 (ACT)

Self Licensed	7
Corp - Licensed	0
Salaried	0
Mortgage Brokers	8

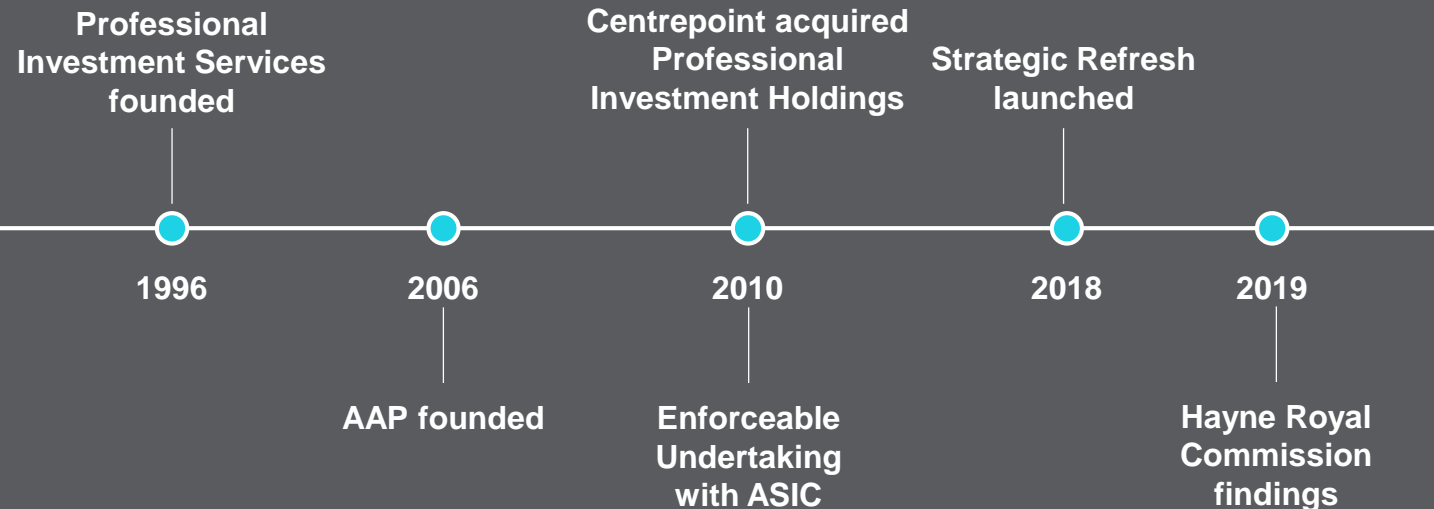
## 641 (VIC)

Self Licensed	560
Corp - Licensed	58
Salaried	0
Mortgage Brokers	23



# CENTREPOINT'S EXPERIENCE

## Governance & compliance capability founded on hard lessons



## Fit for purpose

### Culture & capability aligned to new world of advice

- Contemporary business model enables advisers to select the products & services that are in their clients' best interests
- 20 compliance personnel with collective 145 years of experience
- Unaligned with platform & product providers
- Led by experienced advice executives
- Experience, capability and focus to act decisively in a post Hayne world

Old world & learning ground

Investment in  
governance capability

Contemporary business model

# FIRM SEGMENT ANALYSIS

Key Performance Indicator	Firms FY19	AR's FY19	New Firms 1H FY20	Ceased Firms 1H FY20	New AR's 1H FY20	Ceased AR's 1H FY20	Firms 1H FY20 Close	AR's 1H FY20 Close
Corporate Licence	215	300	37	(13)	55	(26)	239	329
Self Licence (Normal)	225	1,138	9	(9)	142	(182)	225	1,098
Self Licence (XL)	4	689	0	0	16	(60)	4	645

Corporate Licensed Firms: (Excluding Wholesale)

- 16 New Firms with 25 AR's recruited in the period
- 13 Firms and 26 AR's ceased in the period

Corporate Licensed Firms: (Wholesale)

- 21 Firms added with 30\* New AR's

Self-Licensed Firms:

- 9 New Firms recruited in the period
- 9 Firms Ceased in the period

## Corporate Licence - Half Years

Corporate Licence AR's	Half on Half Comparison		
	1H FY19	2H FY19	1H FY20
Open AR's	338	351	300
AR's Added	36	32	25
AR's Ceased	(23)	(83)	(26)
Wholesale AR's Added	0	0	30*
Close AR's	351	300	329

*\*Further six Wholesale AR's are pending transition at 31/12/19*

# GRANDFATHERED REBATES

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\$m	1H19	2H19	FY19	1H20
Total Rebate	6.2	5.3	11.5	4.0
Insurance Rebate	1.6	1.1	2.7	1.1
Platform Rebate	4.6	4.2	8.8	2.9

- Strategic Refresh began in August 2018 to address phase out of rebates and replace with a new sustainable revenue model
- Grandfathered platform rebate run-off driving overall rebate reduction
- Grandfathered platform rebates will be fully phased out by 1 January 2021, anticipated to be replaced by direct service fees

# DEFINITIONS

Term	Definition
<b>AFCA</b>	Australian Financial Complaints Authority
<b>AFSL ARs</b>	Australian Financial Services Licence Authorised Representative
<b>AML &amp; CTF</b>	Anti Money Laundering & Counter Terrorism Financing
<b>CAGR %</b>	Compound Annual Growth Rate %
<b>Contemporary Business Model</b>	Includes assets and revenue in respect of self-licensed firms, Salaried Advice, Licensed Practices (flat fee model), Open Administration Platforms, Managed Accounts and Open Ventura Funds
<b>Corporate Licensed advisers</b>	Advisers authorized under Professional Investment Services or Alliance Wealth
<b>CPD</b>	Continuing Professional Development
<b>CPS</b>	Cents per share
<b>EBITDA (excl. Legacy Claims)</b>	Earnings before interest, tax, depreciation and amortisation excluding legacy claims (claims related to advice pre 1/7/10)
<b>FASEA</b>	Financial Adviser Standards and Ethics Authority
<b>Firms</b>	Accumulated total of corporate licensed Firms and self-licensed Firms in the Centrepoint Group
<b>FoFA</b>	Future of Financial Advice legislation
<b>Funds under Management and Administration ('FUMA')</b>	Funds under Advice (FUA), Funds under Administration and Funds (FUAD) under Management (FUM)
<b>Gross Profit</b>	Revenue received less Direct Costs
<b>Managed Accounts</b>	Funds invested in Ventura Managed Account Portfolio Solutions (VMAPS), which is included in FUM and FUAD
<b>Net Tangible Assets</b>	Total assets of a company, minus any intangible assets such as goodwill, patents and trademarks, less all liabilities and the par value of preferred stock
<b>NPAT</b>	Net Profit After Tax
<b>Operating Expenses</b>	Expenses excluding cost of sales, interest, depreciation and amortisation
<b>PBT</b>	Profit Before Tax
<b>Pre FoFA</b>	Includes assets and revenue in respect of Licensed Practices (excluding flat fee model), closed Administration Platforms (Mentor, Blueprint & DPM), Closed Ventura Funds and Allstar Funds
<b>Statutory Revenue</b>	Revenue comprises financial advice and product margin revenue, service revenue and dividend and distribution income
<b>Royal Commission</b>	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, established 14 Dec. 2017