WT FINANCIAL GROUP LIMITED (ASX: WTL)

ASX Release 4 August 2020

Restructure delivers growth and return to operating profit, despite COVD-19 Impact

WT Financial Group Limited (the Company or the Group) today announced that it has experienced continued growth through its successful restructure strategy and expects to deliver a significant turnaround in operating profit for FY2020. It provides the following indicative results guidance and commentary.

Summary of indicative results

Total Revenue & Other Income was up 20% to $12.70M (FY2019 $10.63M).

With B2B revenue up nearly 70% to $8.37M (FY2019: $4.96M), and recurring revenue up more than 30% to $8.65M (FY2019 $6.59M).

The Group's B2B success increased *Direct Cost of Sales* by around 30% year-on-year to $6.69M (FY2019 $5.13M), in line with its strategic focus.

Total Operating Expenses (excluding depreciation, amortisation, interest and tax) were down around 15% to $5.12M (FY2019 $6.04M), with further improvement anticipated.

Resulting in a more than 250% improvement in *Operating Profit* (EBITDA) to $884k, as compared to an EBITDA loss of $524k for FY2019, underscoring the success of the Group's transformational restructure.

Finance costs were down around 8% to $230k (FY2020 $250k).

The Company will announce its NPAT position on release of its preliminary FY2020 results later this month.

Positive trends expected to continue

Commenting on the interim results, managing director, Keith Cullen, said, "We are delighted to have been able to continue our growth and deliver such a significant turnaround in operating profit despite the economic headwinds of COVID-19". He added, "We anticipate further and sustainable growth in revenue and there remains room for improvement on costs as we finalise our program of exiting surplus office space".

Background to turnaround

Over the past two-and-a-half years the Group has undergone a transformational restructure to reduce its focus and reliance on business-to-consumer (B2C) and non-recurring revenue, to emerge as a primarily business-to-business (B2B) focused enterprise targeting predominately recurring revenue lines.

Central to its strategic transformation has been the acquisition of the Group's Wealth Today Pty Ltd (Wealth Today) subsidiary which provides a comprehensive range of "dealer group" services to financial advisers who are independent business operators acting as authorised representatives.

The Group's strategic transformation is enabling it to capitalise on industry disruption created by the unravelling of institutional advice models which continues to provide a substantial expansion opportunity.

Concurrently the Group has rationalised its B2C financial advice and wealth management operations conducted under the Spring Financial Group banner, which has helped deliver significant cost reductions.

A comparison of the interim results against the prior two financial years is provided with this release to underscore the significance of the turnaround through the implementation of the Group's restructure.

Impact of restructure program on revenue and revenue mix

The Company expects its FY2020 results to reflect *Total Revenue and Other Income* as up more than 20% on the prior year to $12.70M (FY2019 $10.63M), with H2 FY2020 *Total Revenue and Other Income* showing an improvement of around 4% on the first half of the year despite the economic impact of COVID-19 which has been primarily contained to the Group's B2C operations.

Significantly, B2B revenue accounted for more than 65% of *Total Revenue and Other Income* and was up nearly 70% to $8.37M (FY2019: $4.96M).

Recurring revenue now accounts for 68% of *Total Revenue and Other Income* and was up more than 30% to $8.65M (FY2019 $6.59M).

The Company's significant increases in B2B revenue more than offset an approximate 25% reduction in B2C revenue from $5.67M the prior year to around $4.23M for FY2020, with the impact greatest in the period February to June 2020.

A series of charts are provided with this release highlighting the Company's revenue mix including its significant proportion of recurring revenue.

Impact of restructure program on costs

Successful rationalisation of Company's B2C activities have resulted in considerable reductions of fixed overhead over the past two-and-a-half years, with further improvement achieved throughout the year as the Company completed more components of its strategic transformation.

For FY2020 total operational expenses (excluding depreciation, amortisation, interest and tax) were down around 15% to $5.12M (FY2019 $6.04M).

Employment expense was down 16.9% to $2.89M (FY2020 $3.48M), driven primarily through restructuring initiatives, and aided further by COVID-19 related payroll reductions in the latter part of the year.

Advertising and marketing expenses were down 56% to $154K (FY2019 $351K). With lower costs associated with marketing the Group's B2C operations this level is expected to be maintained (or reduced marginally) from FY2021.

Occupancy costs were down 31% on the prior year to $633K (FY2019 $927M) aided in part by relief afforded the Company by its Melbourne and Sydney lessors under the COVID-19 commercial tenancy code.

Significantly, the Group has secured a sub-tenant for its surplus office space in Sydney with effect from 1 August 2020, improving its net cost in Sydney by $180k pa. It will see a further $35k pa improvement from October 2020 through exiting surplus Perth office space stemming from a shift of several roles and responsibilities across it B2B operations to Sydney.

The Group continues to seek a sub-tenant or assignee for its Melbourne office space, made redundant by its successful restructure and the sale of components of its B2C operations. If and when successful, this will achieve further reduction in office accommodation expense of up to $180k pa.

Impact of COVID-19 Pandemic

A summary COVID-19 impact statement is provided with this release. Given the fluidity of the situation, the Company will provide further updates as and when new information and analysis is available, including with its full year results.

Attachments

Historical operating profit comparison
Revenue distribution charts
COVID-19 Impact Statement

Historical Operating Profit Table

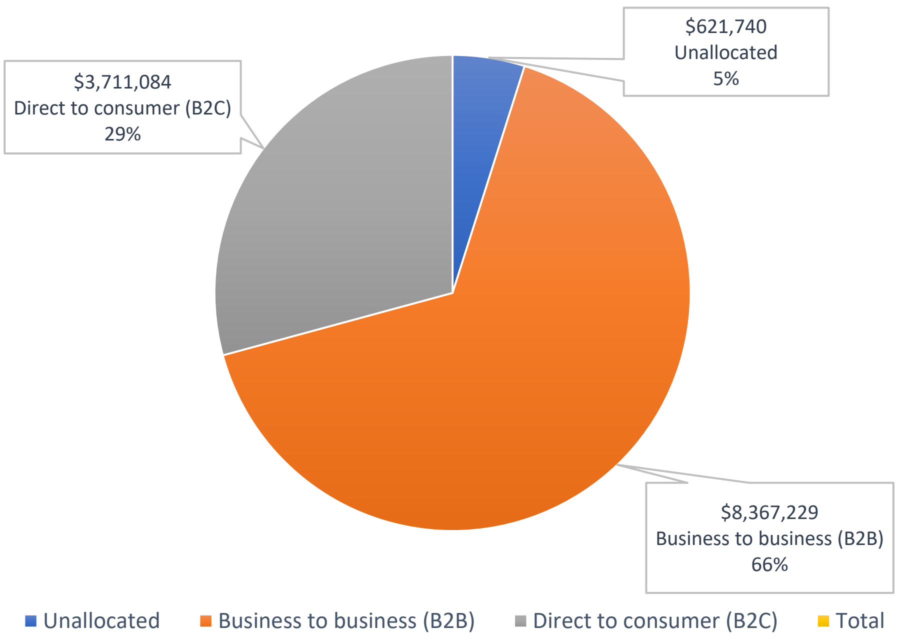
Revenue growth and cost reductions deliver a return to operating profit

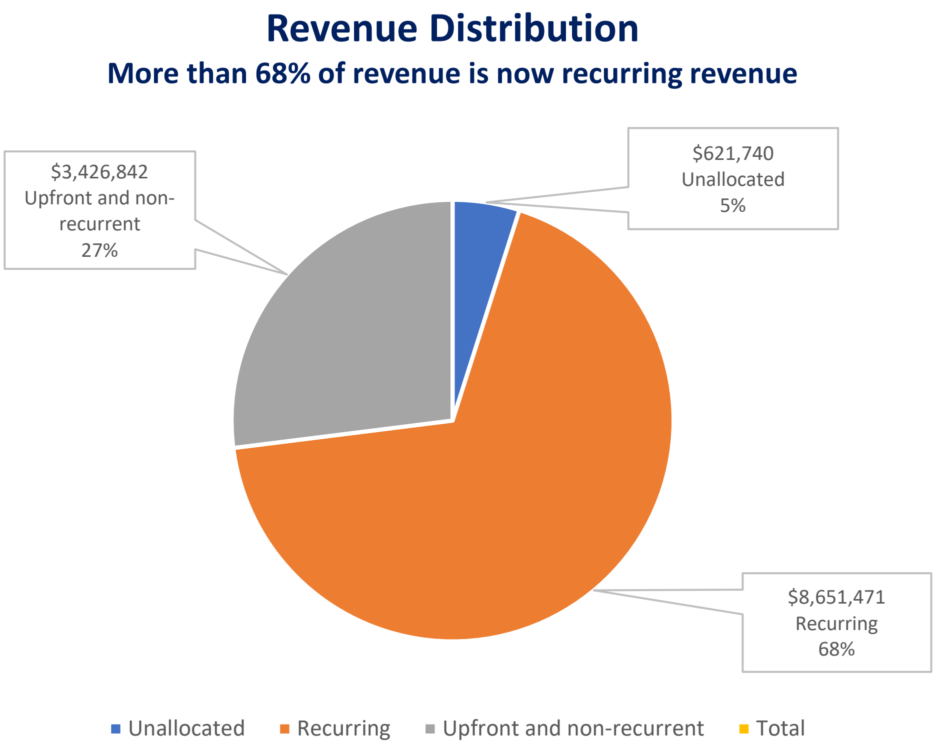
	FY2020 $	FY2019 $	PCP Variance	FY2018 $
Revenue	**12,106,133**	10,457,449	16%	7,381,246
Other income	**593,919**	182,259	226%	1,973,682
Total revenue and other income	**12,700,053**	10,639,708	19%	9,354,928
Direct cost of sales	**(6,696,070)**	(5,126,760)	31%	(3,273,972)
Employee benefits expense	**(2,892,402)**	(3,480,692)	-17%	(5,095,116)
Advertising & marketing expenses	**(154,635)**	(351,728)	-56%	(757,504)
Consulting & professional fee expenses	**(365,980)**	(283,331)	29%	(294,746)
Rental expenses	**(633,216)**	(927,167)	-32%	(1,034,129)
Other operating expenses	**(1,073,612)**	(994,805)	8%	(1,333,790)
Total operating expenses	**(5,119,846)**	(6,037,723)	-15%	(8,515,285)
EBITDA	**884,137**	(524,775)	-268%	(2,434,329)

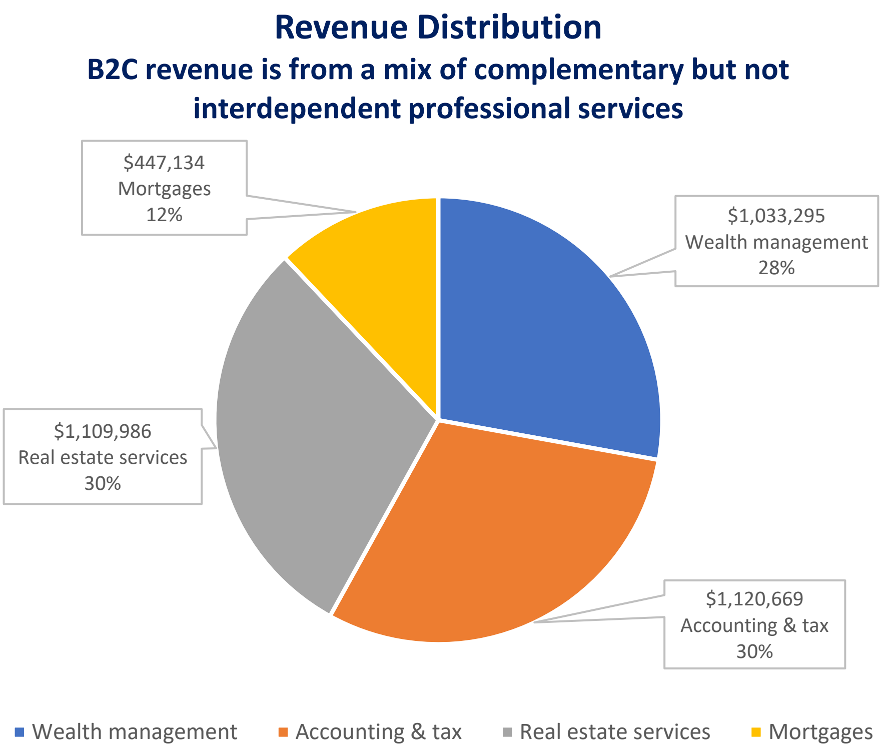
As the table above demonstrates, the Group's successful restructure over past two-and-a-half years has delivered strong revenue growth and significant cost reductions to return the Company to an operating profit. Further revenue growth is anticipated, fuelled by further expansion of its B2C operations and despite the economic impact of COVID-19, which has been felt most by the Group's B2C operations.

Revenue Distribution

B2B now accounts for around two-thirds of all revenue




Revenue Distribution
More than 68% of revenue is now recurring revenue
$3,426,842
Upfront and non-recurrent
27%
$621,740
Unallocated
5%
$8,651,471
Recurring
68%
Unallocated
Recurring
Upfront and non-recurrent
Total


Revenue Distribution
B2C revenue is from a mix of complementary but not interdependent professional services
$447,134
Mortgages
12%
$1,033,295
Wealth management
28%
$1,109,986
Real estate services
30%
$1,120,669
Accounting & tax
30%
Wealth management
Accounting & tax
Real estate services
Mortgages

WT FINANCIAL GROUP LIMITED (ASX: WTL)

ASX Release 4 August 2020

Summary COVID-19 Impact Statement

The Company provides the following preliminary commentary on the impact of the COVID-19 pandemic on its operations and revenue and profitability. Given the fluidity of the situation, the Company will provide further updates as and when new information and analysis is available, including with its full year results.

Impact on revenue and profitability

Despite significant challenges, the Company has enjoyed continued growth in revenue on a Group basis since the impact of COVID-19.

In the Group's Wealth Today (B2C) operations, the economic uncertainty and downturn from the pandemic initially placed considerable pressure on financial advisers, as they dealt with uncertainty in their own businesses (and lives), and at the same time dealt with the many issues arising for their existing clients.

This resulted in a reduction in new business revenue for many advisers across the period from February 2020 to May 2020, as their focus shifted and the uncertainty of the outlook quelled inbound inquiry from potential new clients. Most appear to have adapted and recovered by April, with new business activity increasing considerably across June and July 2020, and the Group's B2C operations recording record revenue in these months.

The resulting impact on the Group's February to May revenue resulted in an estimated impact on EBITDA around $150k for FY2020.

Across February to April 2020 Wealth Today experienced a general reduction in inbound inquiry from new advisers and saw a number of advisers who had been in discussions to join it defer their moves, impacting FY2020 EBITDA by an estimated $250k. However, through June and July 2020 (and to date) inquiry has returned to prior levels and those in discussions have become active with their moves again.

Whilst its growth trajectory has been impacted and will continue to be impacted by the pandemic, the Company anticipates continued growth at or around that experienced across FY2020, thanks in large part to the ongoing industry disruption - as institutional licensees exit the market and advisers continue to seek non-aligned dealer groups to join.

Revenue from the Group's B2C operations was down around 25% year on year, with the impact greatest in the second half of the year. As with advisers in the Group's Wealth Today dealer group, the Company's salaried advisers committed significant time to dealing with existing clients impacted by the pandemic, while new business opportunities were limited. The resulting impact on FY2020 EBITDA is estimated at around $150k after accounting for benefits flowing from relief afforded the Company by its Melbourne and Sydney lessors under the COVID-19 commercial tenancy code.

The Company's subsidiaries that were worst affected by COVID-19 benefited from both the Job Keeper and Cash Boost initiatives of the federal government with total government grants for the financial year $426k, offsetting in part the impacts on profitability noted above. Government grants are reflected in *Other Revenue* in the indicative results contained in this release.

Impact on operational capacity

Group operations have been able to be readily adapted during the pandemic, with a mix of work-from-home and video conferencing solutions implemented that have enabled both B2C and B2B client to continue to be served with limited interruption.

The move to work from home was relatively seamless for a lot of advisers in the Wealth Today dealer group, as most have spent years working at least a part of their time, if not most of it, from home, or on the road in other cases.

The Group is well equipped from an operational and technological perspective to continue its operations should the impact of the pandemic continue. It has been aided in its COVID Safe planning and implementation by the professionalism and focus of its premises lessors who have gone above and beyond to ensure the Group's workplaces operate safely and efficiently.

Impact on future outlook

Whilst it is impossible to forecast what the future may hold either economically or socially as a result of the ongoing pandemic, the Company considers it will be able to continue to adapt and grow.

Continued improvements in revenue (and reductions in expenses) throughout the year have enabled the Company to achieve an operating profit (excluding depreciation, amortisation, interest and tax) of nearly $900k. This is a considerable turnaround on an FY2019 operating loss of $524k, despite the significant economic headwinds presented by COVID-19 and the resulting impact to EBITDA noted above.

Whilst the situation is clearly very fluid and uncertainties remain, the Company expects its growth trend in revenue and profitability to continue across FY2021 and beyond as its B2B activities increase further in scale.

The Company's board is finalising a review of carrying values of all intangible assets associated with its B2C operations to ensure that its balance sheet appropriately reflects its restructured revenue composition and the impact of COVID-19 on B2C operations. It is also reviewing occupancy-related fixed asset values considering reductions in its office space requirements.

About WT Financial Group Limited

WT Financial Group Limited is a diversified financial services group. Its advice and product offerings are delivered primarily through a group of independent financial advisers operating as authorised representatives under its Wealth Today Pty Ltd subsidiary. The Group's B2C division delivers a range of services directly to wholesale and retail clients through the Spring Financial Group brand, encompassing financial planning, accounting & tax services, mortgage finance services, and investment and asset management.

The Group offers market-leading financial education and market information services for advisers and consumers through that includes the publication of its Wealthadviser library of more than 100 financial literacy eBooks on a broad range of financial an investment market topics.

Further information:
Keith Cullen
Managing director
(02) 9248 0422