

# FY20 RESULTS

27 August 2020

**Presented by**  
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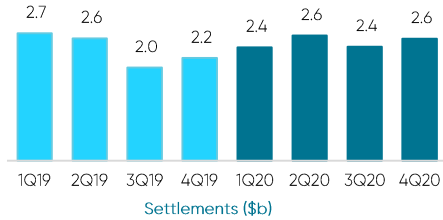
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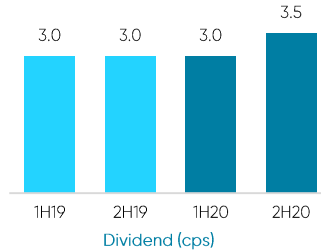


# Executive Summary

# FY20 performance highlights



Settlements of \$10.0b



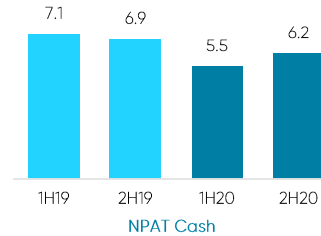
Increased dividend



554 Credit Reps & 38 Advisers



Loan book at \$54.0b  
FUA \$1.1b  
Premium In Force \$31.8m



Cash NPAT of \$11.7m  
IFRS NPAT of \$9.4m



Rebranded Financial Planning business to FinChoice

# FY20 performance highlights

		FY20	FY19	FY20 vs FY19
NPAT	– IFRS	9.4m	13.7m	(31%)
	– Cash	11.7m	14.0m	(16%)
	One-off items ^	0.7m	(1.1m)	-
	Cash adjusted	12.4m	12.9m	(4%)
Mortgage Broking	– Settlements	10.0b	9.4b	7%
	– Loanbook	54.0b	54.3b	(1%)
FinChoice Financial Planning	– FUA	1.1b	952.2m	15%
	– PIF	31.8m	29.7m	7%
EPS	– Cash	9.4c	11.2c	(16%)
	– IFRS	7.5c	11.0c	(32%)
DPS	– Final Dividend	3.5c	3.0c	17%

^ FY20 restructure and other one-off costs. FY19 one month impact of remuneration model change (refer to slide 10)

# Successfully navigated COVID-19 restrictions

- Settlements up 7% to \$10b despite the environmental challenges of devastating bushfires and the COVID-19 pandemic; in the last quarter customer activity and enquiry levels remained strong with settlements up 18% on FY19.
- Quickly able to adapt to the change in environment with franchisees and staff working remotely. Ensured the Company and franchisees remained open through periods of shutdown, including the stage four restrictions experienced in Victoria.
- Maintained service levels while ensuring customers were able to transact; working with lender partners to meet customers' needs where face-to-face meetings were not possible including the use of electronic signatures and acceptance of remote ID checks.
- Lenders continue to pay trail on loans where customers have entered into repayment arrangements as a result of COVID-19.
- No government stimulus (JobKeeper) received.

# Achievements and progress

## Business outcomes

- Settlements up 20% in H2 of FY20 with a positive return to recruitment after Federal Election.
- Achieved record lead numbers in the H2 of FY20.
- Restructured the business for long-term success and strengthened the leadership team.
- Continued to invest in technology to increase broker and adviser productivity; integrate digitally connected customers and establish a big data cloud platform.
- Launched 'Mortgage Choice Home Loans - Ignite' white label product in February 2020 supported by Pepper Money.

## Best Interests Duty Compliance

- Developing industry-leading software enhancements to our proprietary Broker Platform to ensure we achieve full compliance of Best Interests Duty in preparation for 1 January 2021.
- Focus on the efficient compliance of our franchise network and delivering best practice customer service in parallel.



# Financial Performance & Underlying Drivers



# Profit & loss statement

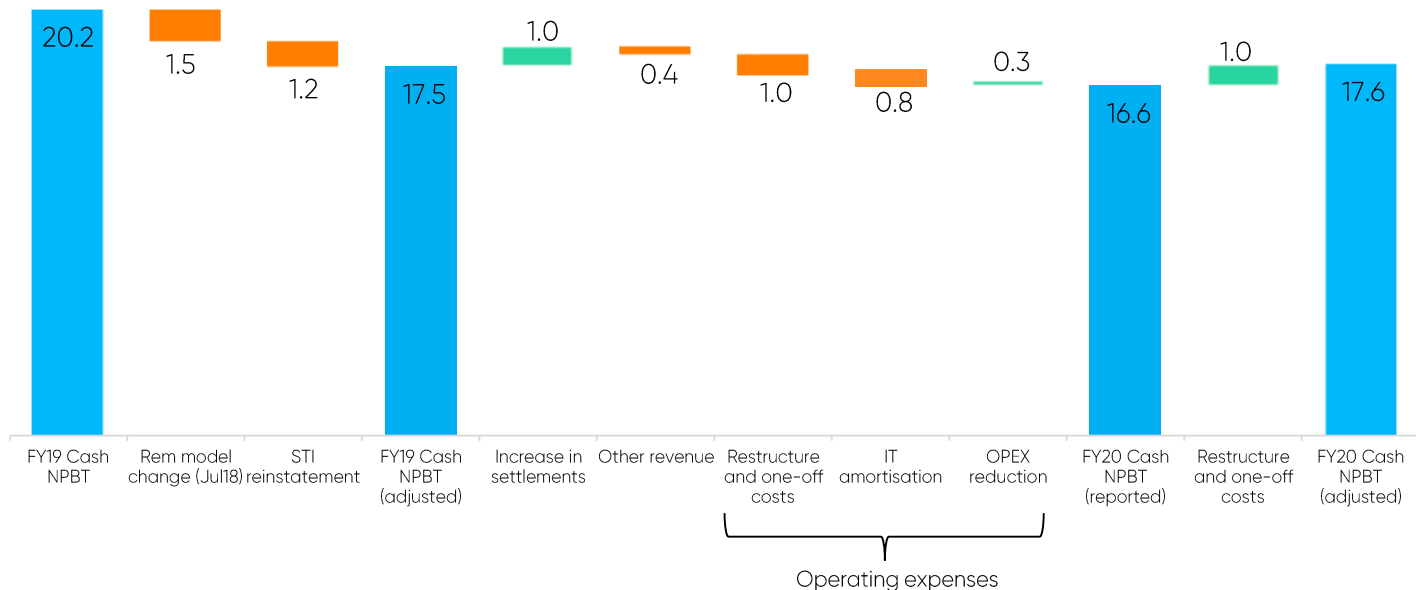
	FY20Cash <sup>^</sup>	FY19Cash <sup>^</sup>	Change	FY20IFRS	FY19IFRS	Change
	\$m	\$m	%	\$m	\$m	%
Origination commission received	61.5	57.9	6%	61.5	57.9	6%
Trailing commission received	99.3	99.8	(1%)	97.1	100.3	(3%)
Total commission received	160.7	157.7	2%	158.6	158.2	0%
Origination commission paid	47.7	44.4	7%	47.7	44.4	7%
Trailing commission paid	71.4	71.1	0%	71.2	71.3	(0%)
Total commission paid	119.1	115.5	3%	118.9	115.7	3%
<b>Net core commission</b>	41.6	42.2	(1%)	39.6	42.5	(7%)
Diversified products net revenue	1.1	1.3	(11%)	1.1	1.2	(10%)
Financial Planning net revenue	1.9	1.9	3%	1.6	1.8	(7%)
Other income	3.7	4.0	(8%)	3.7	4.0	(8%)
<b>Gross profit</b>	48.4	49.4	(2%)	46.1	49.5	(7%)
Operating expenses	31.8	29.2	9%	31.8	29.2	9%
Share based remuneration				0.7	0.4	63%
Net profit before tax	16.6	20.2	(18%)	13.6	19.9	(32%)
<b>Net profit after tax</b>	11.7	14.0	(16%)	9.4	13.7	(31%)
EPS (cps)	9.4c	11.2c	(16%)	7.5c	11.0c	(32%)
DPS (cps) – Full year	6.5c	6.0c	8%	6.5c	6.0c	8%

- FY20 cash results reflects a full 12 months of changed broker remuneration model and FinChoice remuneration model compared to 11 and 9 months in FY19.
- The average payout ratio of 74.1% (upfront 77.6%, trail 71.9%) compared to 74.0% FY19 after August 2018 (upfront 76.4%, trail 72.5%).
- Cash expenses normalised to exclude one-off restructure and other costs of \$1.0m in FY20 is \$30.8m. Allowing for the non payment of STI in FY19 of \$1.2m underlying expenses are up 2%.

<sup>^</sup> Cash is based on accruals accounting and excludes share based remuneration and the net present value of future trailing commissions receivable and payable. This is an extract from our audited accounts.

# Cash NPBT down year-on-year

## Net Profit Before Tax (\$m)



- FY20 reflects the first full year of the broker remuneration model change vs 11 months in FY19.
- Other revenue includes lower sponsorship received offset in operating expenses.
- Operating expense includes:
  - increased IT amortisation reflecting rollout of core platforms,
  - one-off restructure and other costs, and
  - reinstatement of STI not paid in FY19.

# Divisional results

	FY20			FY19		
	Total \$'000	MC \$'000	FinChoice \$'000	Total \$'000	MC \$'000	FinChoice \$'000
Settlements		10.0b			9.4b	
Gross profit (IFRS)	46,097	44,443	1,654	49,492	47,748	1,744
Gross profit (Cash)	48,441	46,480	1,961	49,352	47,464	1,888
OPEX	(31,830)	(29,200)	(2,630)	(29,157)	(27,287)	(1,870)
EBITDA (Cash)	18,995	19,655	(660)	21,793	21,775	18
NPAT (IFRS)	9,425	10,130	(705)	13,724	13,812	(88)
NPAT (Cash)	11,719	12,181	(462)	14,028	14,007	21
YOY growth (%)	(16%)	(13%)	n/a			

## MC – Broking Business

Cash gross profit declined due to remuneration model change, reduced other income offset partially by increased settlements.

## FinChoice

Financial planning result reflects new remuneration model from 1 October 2018 and increased IT platform expenses being absorbed as part of initial transition to XPLAN.

FinChoice does NOT include any grandfathered commissions.

# Operating cash flow

	FY20 \$'000	FY19 \$'000
EBITDA (cash basis)	18,995	21,793
Net interest income	424	545
Depreciation and amortisation	(2,811)	(2,143)
<b>Net Profit Before Tax (cash basis)</b>	<b>16,608</b>	<b>20,195</b>
Depreciation and amortisation – other	2,811	2,143
Tax paid	(5,401)	(5,064)
Purchase of fixed assets and intangibles	(3,253)	(3,755)
Loans to franchisees, net of repayments	1,130	150
One-off loan book purchases as part of model restructure	(690)	(2,122)
Other balance sheet movements*	2,976	(473)
Cash flow before borrowings and dividends	14,181	11,074
External borrowings, net of repayments	(2,500)	2,500
Dividends paid	(7,500)	(15,000)
<b>Net cash movement</b>	<b>4,181</b>	<b>(1,426)</b>

- EBITDA cash generation remains strong.
- Depreciation and amortisation expense reflects broker platforms and efficiency tools coming online.
- IT investment expected to continue at a similar level in FY21.
- External borrowing repaid in full in period.
- Final dividend of 3.5 cents, bringing full year dividend to 6.5 cents (fully franked), payout ratio of 69%.

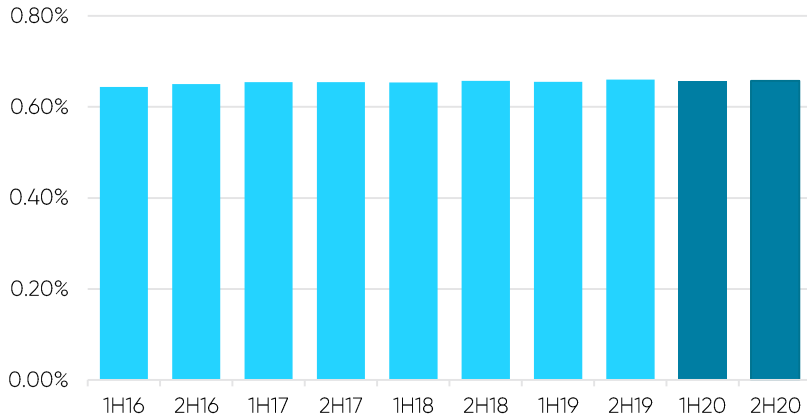
\*Includes prepayments, other payables and receivables.

# Stable average upfront & trail commission rates

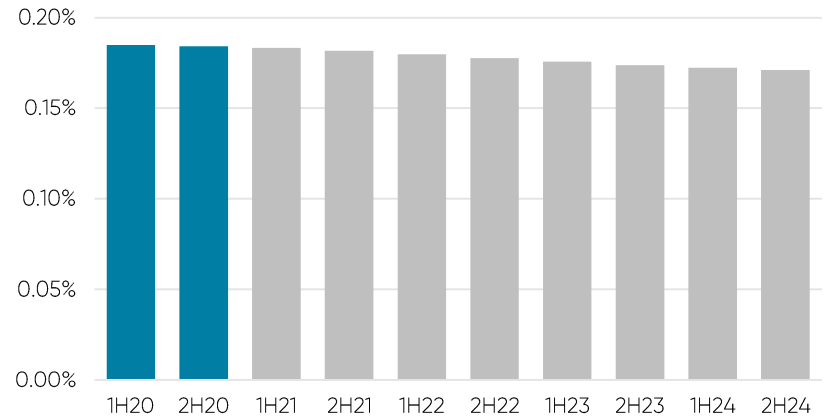
Average upfront rate for FY20 is 0.6564%

Average trail rate for FY20 is 0.1845%

Average Upfront Rate (%)



Average Trail Rate (%)



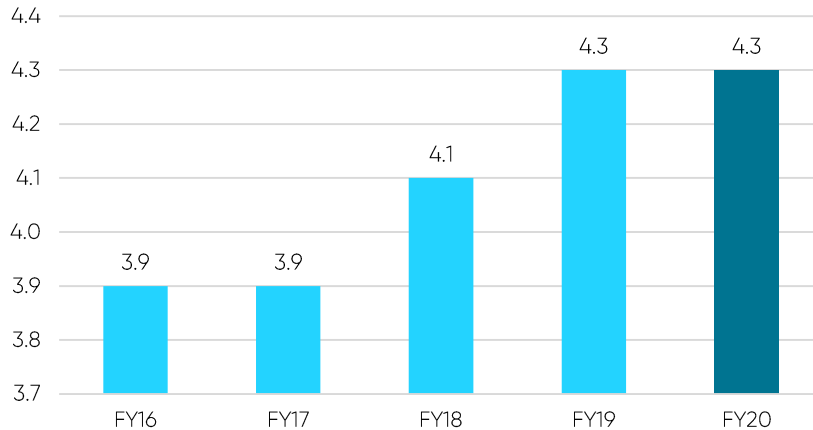
■ Average rate total book

■ Average rate total book (estimated)

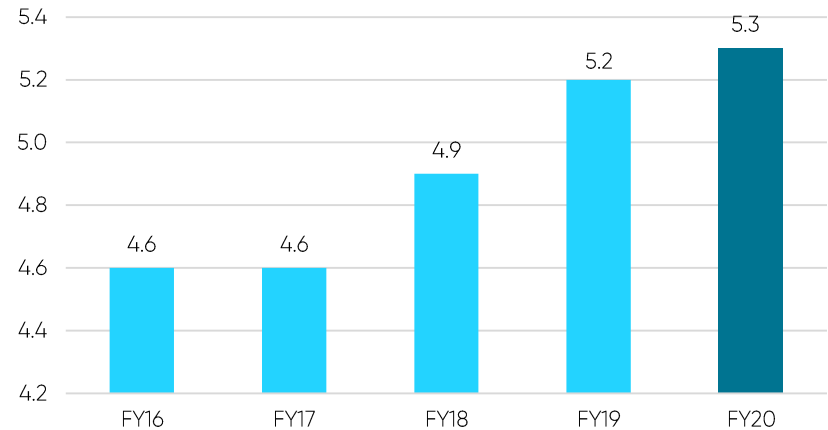
# Loan life

On a portfolio basis average loan life remained at FY19 levels whilst average loan life for new settlements continued to grow.

Loan Life – Existing Loans  
(number of years)



Loan Life – New Settlements  
(number of years)



Prepared by: Deloitte Actuaries & Consultants Limited.

The loan life is a projection of the future at the date of calculation. Each year's loan life is based on the experience of that year, assuming this recurs in all the years.

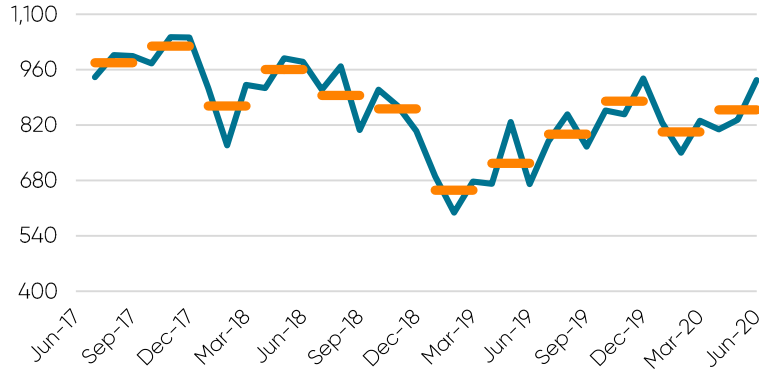
# Settlements improved with market

Settlement activity tracked in line with market following a low in February 2019.

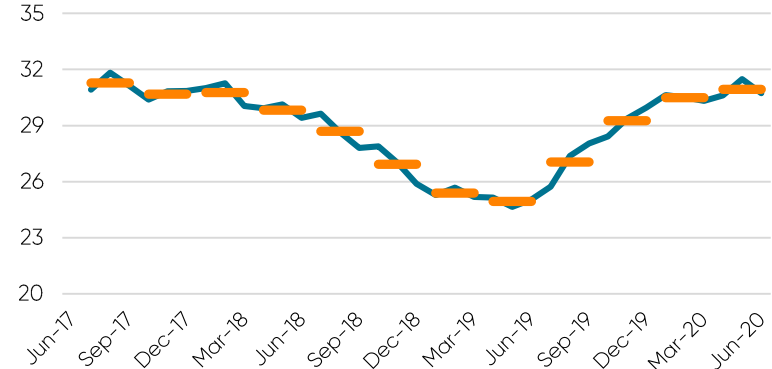
Settlements remained strong in Q4 in spite of COVID-19 restrictions.

Refinance activity increased ~10% in April and May to be an average 40% of flows for the year.

### Mortgage Choice Settlements Trend (\$m)



### Housing Finance Approvals (\$b)

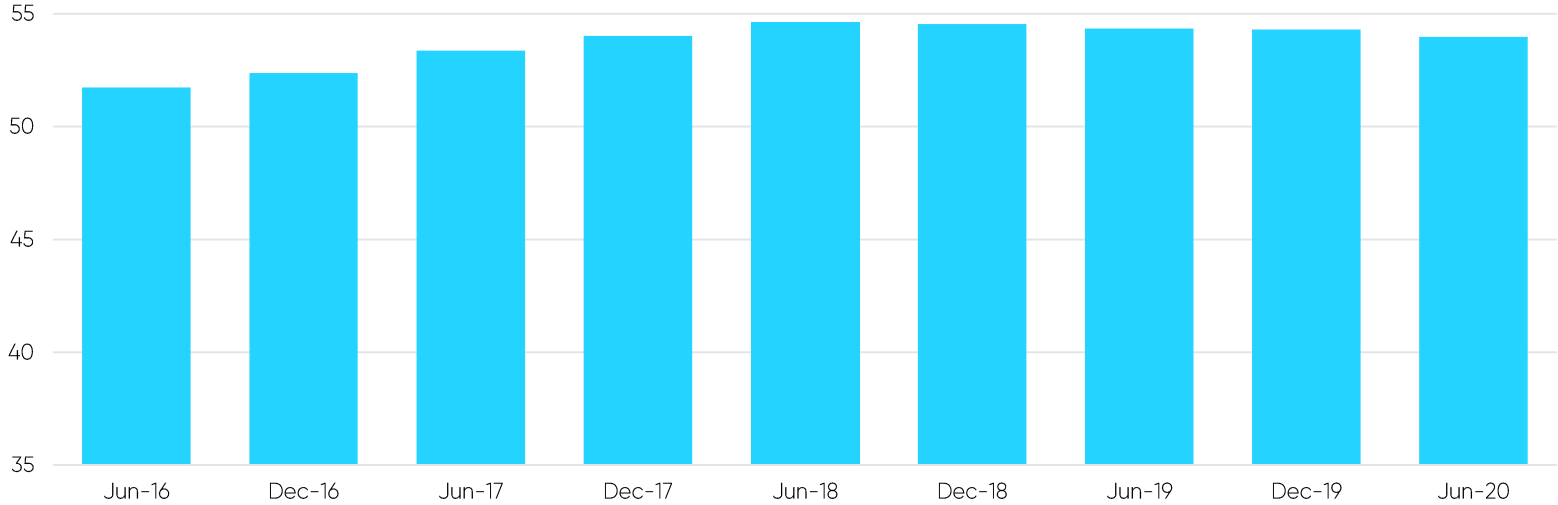


Source: ABS 5601 Table 3 and Table 13 June 2020 (Seasonally adjusted series)

# Mortgage Choice loan book

Loan book of \$54.0b at 30 June 2020 slightly down on FY19 with run off of existing loans exceeding new settlements.

Loan Book (\$b)

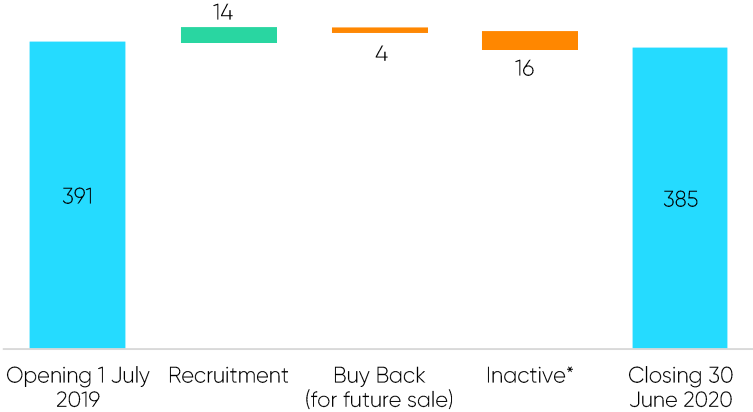




# Broker franchise network

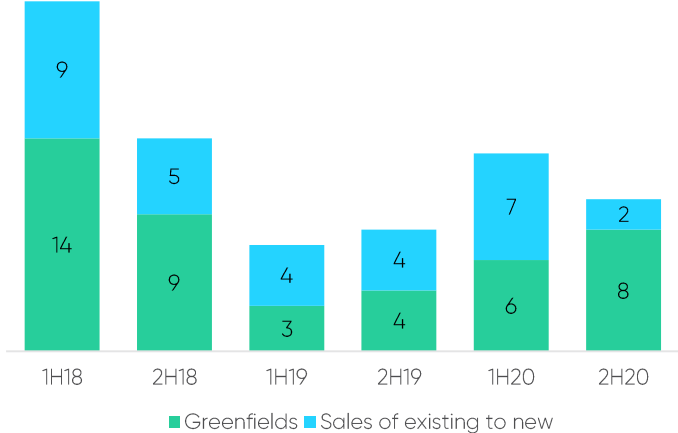
New franchise recruitment showing signs of recovery with growth in new franchisees joining and regeneration of existing businesses up on prior year.

## Franchise Movement



\*Inactive includes franchise retired without sale, franchise terminated and active franchise merged.

## New Owners



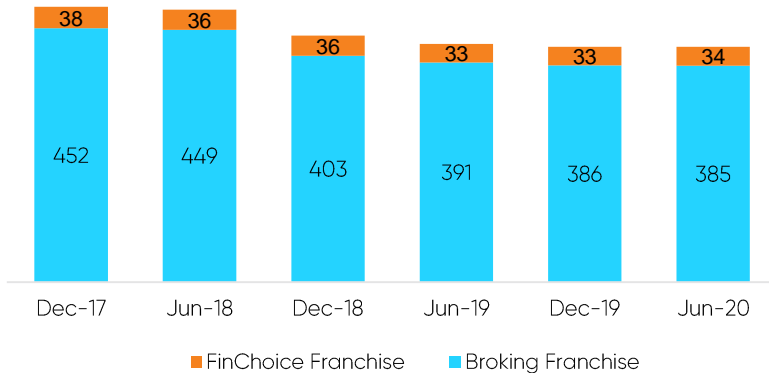
■ Greenfields ■ Sales of existing to new

# Franchise Network - Brokers and Advisers

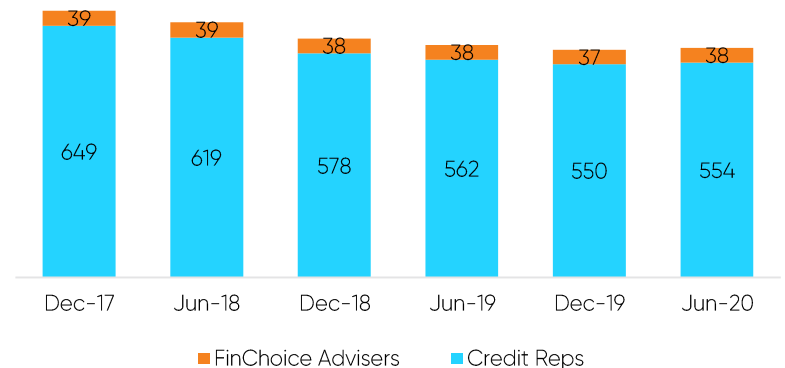
Reduction in credit representatives in FY19 partially associated with one-off mergers and buybacks following restructure of broker remuneration model. Broker and adviser representatives increased in the second half of FY20.

Credit reps include 45 limited credit reps as at 30 June 2020.

### Franchise Network

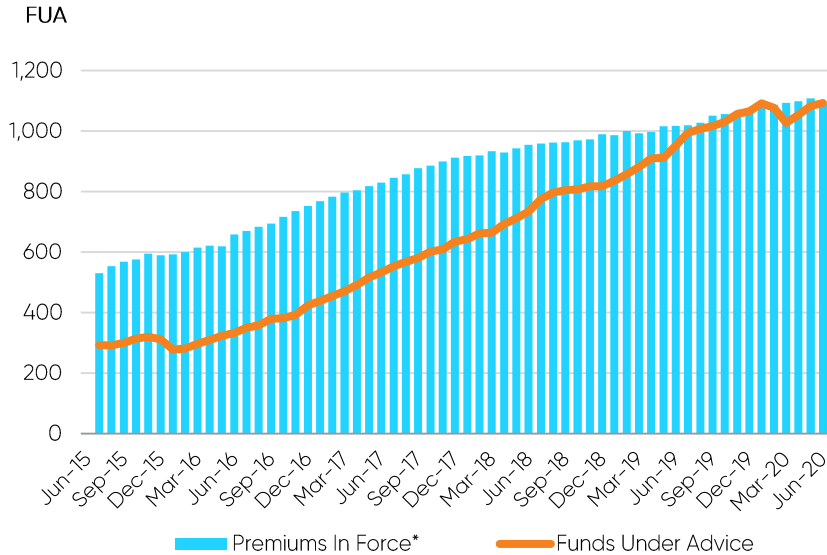


### Brokers & Advisers

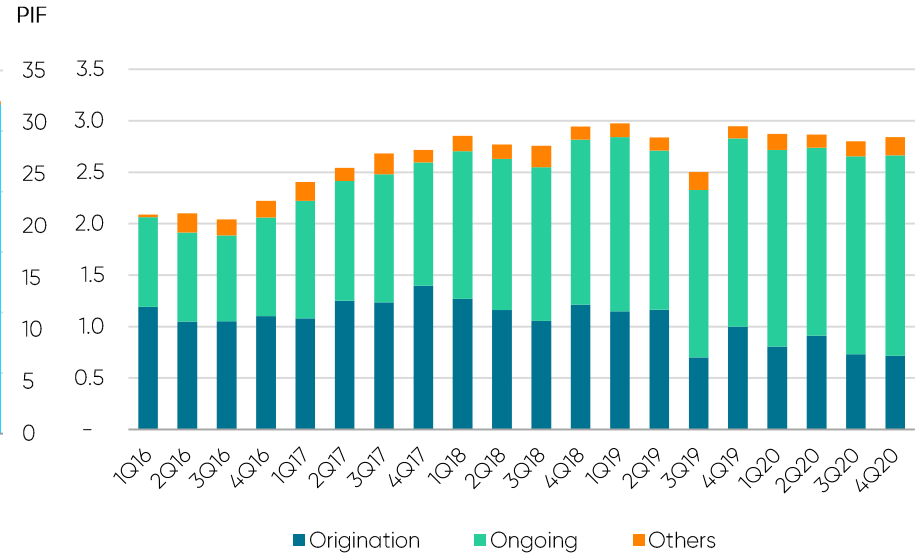


# Funds Under Advice & Premiums In Force continue to grow

FUA and PIF (\$m)



Gross Revenue (\$m)



\*Includes insurance referred by broking network



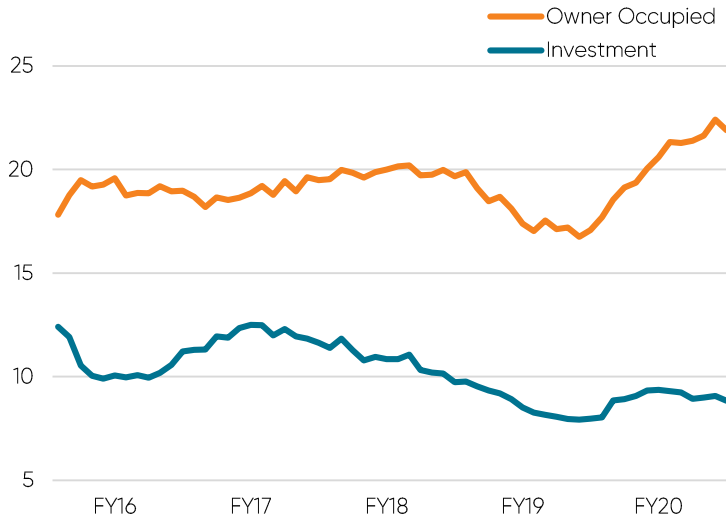
# Market Update

# Demand for Broking Services continued

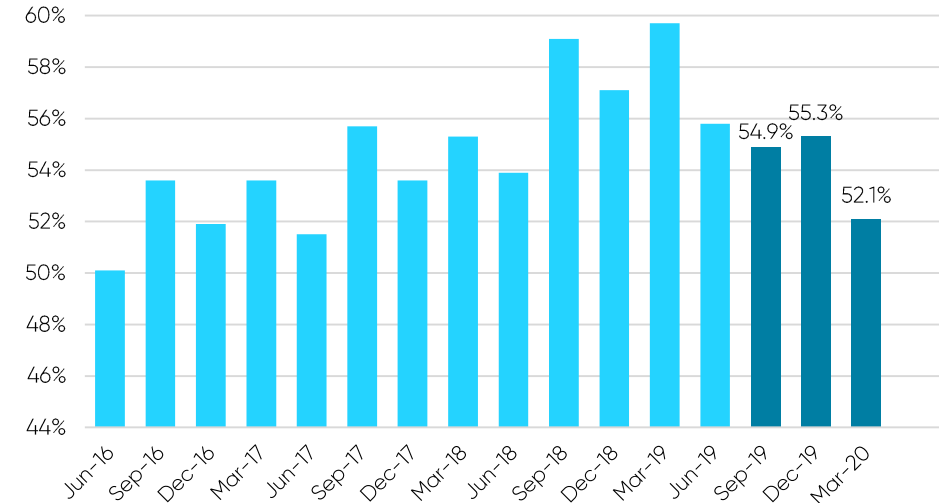
Broker market share averaged 55% for the last 12 months.

Approvals averaged at \$29.4b per month in FY20, up 11.1% on FY19 (\$26.5b).

### Housing Finance Approvals, ABS (\$b)



### Broker usage, MFAA (%)



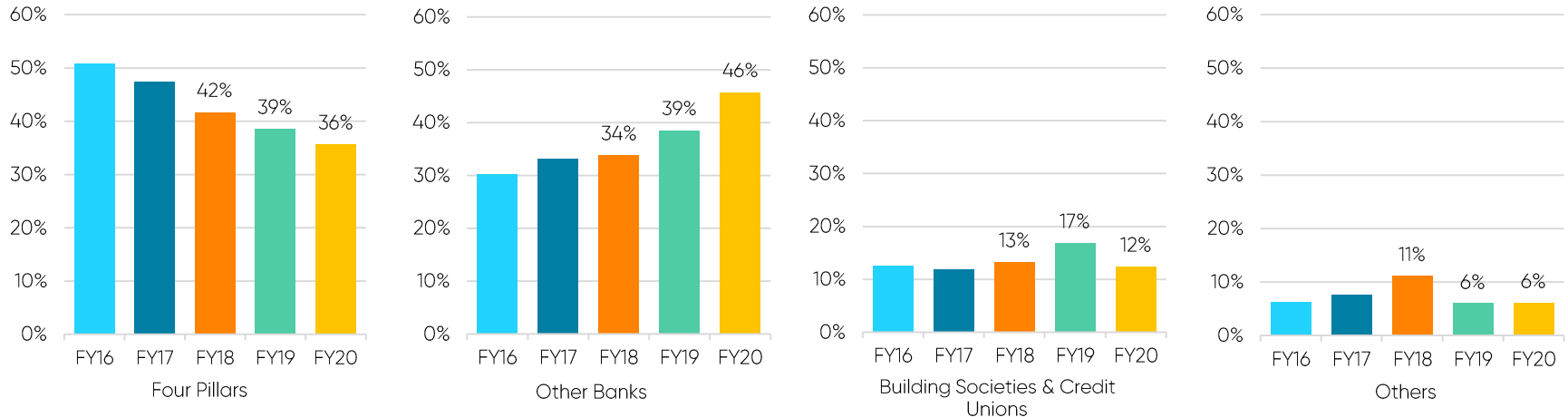
Source: ABS 5601 Table 3 and Table 13 June 2020 (Seasonally adjusted series)

# Settlements continue to shift from four pillars

Mortgage brokers continue to be at the forefront of driving competitive shift from majors to smaller banks and financial institutions.

Four pillars continue to lose market share as consumers increasingly look to smaller banks and niche lenders. Four pillars including St. George and Bankwest fell from 52% to 50%.

## Mortgage Choice Residential Settlements by Lender (%)



Four Pillars includes primary brands CBA, ANZ, NAB and Westpac.

Other banks includes Adelaide Bank, AMP Banking, BankWest, Citibank, Gateway Bank Limited, Heritage Bank, HSBC Bank, ING Direct, Macquarie Mortgages, St George Bank / Bank SA / Bank of Melbourne and Suncorp.



# Focus for FY21 and Summary



# Strategic Objectives

# FY21 Initiatives



Growth of our revenue base through recruitment, regeneration and retention of franchise talent



Accelerated investment in an enhanced and digitally-driven customer experience



Delivery of systems and processes that create digitally efficient broker and adviser businesses



# Summary



Resilient result in an uncertain economic environment with the challenges of COVID-19 being well managed.



Focused on building franchise and broker footprint to drive future growth.



Building out the digital customer experience supported by efficient and digitally enabled franchises to further support settlement growth.



Broker platform enhancements to ensure compliance with Best Interest Duty obligations well ahead of ASIC mandated 1 January 2020 deadline.



Strong underlying cash flows and debt-free balance sheet.



Well positioned to grow settlements and pursue other revenue.

# Appendices

# 5 Year Stats – P/L

\$m	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20
Origination inc	37.52	35.32	39.28	36.57	36.21	33.81	32.09	25.77	30.89	30.57
Origination exp	(27.10)	(25.84)	(28.46)	(26.15)	(24.84)	(24.00)	(24.64)	(19.74)	(24.08)	(23.62)
Cash Trail inc	47.42	47.76	48.39	48.30	49.29	49.17	50.16	49.67	50.07	49.22
Cash Trail exp	(28.85)	(29.00)	(29.41)	(29.69)	(29.88)	(30.03)	(35.18)	(35.95)	(35.73)	(35.68)
Net Upfront	10.42	9.48	10.82	10.43	11.37	9.81	7.45	6.03	6.81	6.95
Net Trail	18.58	18.76	18.98	18.61	19.41	19.14	14.98	13.72	14.34	13.54
Net Commission	28.99	28.24	29.80	29.03	30.78	28.94	22.43	19.75	21.14	20.49
Other Income (inc Diversified products and FinChoice)	5.37	3.20	3.13	5.80	3.45	5.25	3.09	4.09	2.76	4.04
Cash PAT	10.09	10.46	11.72	10.91	12.54	10.84	7.14	6.89	5.54	6.18
IFRS PAT	10.75	8.79	11.43	10.74	11.44	(7.20)	6.39	7.34	3.96	5.46
Cash e.p.s.	8.1 c	8.4 c	9.4 c	8.7 c	10.0 c	8.7 c	5.7 c	5.5 c	4.4 c	5.0 c
IFRS e.p.s.	8.6 c	7.1 c	9.2 c	8.6 c	9.2 c	(5.8)c	5.1 c	5.9 c	3.2 c	4.3 c
Div p.s.	8.0 c	8.5 c	8.5 c	9.0 c	9.0 c	9.0 c	3.0 c	3.0 c	3.0 c	3.5 c
Upfront Payout	72.2%	73.2%	72.5%	71.5%	68.6%	71.0%	76.8%	76.6%	78.0%	77.3%
Trail Payout	60.8%	60.7%	60.8%	61.5%	60.6%	61.1%	70.1%	72.4%	71.4%	72.5%
Total Payout	65.9%	66.0%	66.0%	65.8%	64.0%	65.1%	72.7%	73.8%	73.9%	74.3%
<b>Volumes MC</b>										
Settlements # '000	19.80	19.10	20.01	18.56	18.46	15.91	15.17	12.42	14.67	14.94
Settlements \$b	6.23	5.97	6.37	5.97	5.99	5.49	5.27	4.14	5.03	4.98
Approvals \$b	7.22	6.78	7.29	6.78	6.93	6.19	5.87	4.93	5.91	5.90
Market \$b*	185.07	171.29	188.58	182.29	190.91	175.39	172.69	144.43	176.18	177.60
Market Share	3.9%	4.0%	3.9%	3.7%	3.6%	3.5%	3.4%	3.4%	3.4%	3.3%
Avg Residential Loan Book \$b	49.73	50.7	51.54	52.52	53.32	53.90	54.19	53.97	53.89	53.67

\* Source: ABS 5601 Table 3 and Table 13 June 2020 (original series, non seasonally adjusted).

# Balance Sheet

	Jun-20 \$'m	Jun-19 \$'m
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6.1	1.9
Trade and other receivables	14.1	13.8
Contract assets	92.1	98.5
<b>Total current assets</b>	<b>112.3</b>	<b>114.2</b>
<b>Non-current assets</b>		
Receivables	3.5	4.2
Contract assets	280.0	277.9
Property, plant and equipment	0.6	0.7
Right to use asset	3.5	-
Intangible assets	10.7	10.1
<b>Total non-current assets</b>	<b>298.1</b>	<b>293.0</b>
<b>Total assets</b>	<b>410.4</b>	<b>407.2</b>
<b>Equity</b>		
Contributed equity	8.2	8.1
Reserves	2.0	1.4
Retained profits	78.8	77.0
<b>Total equity</b>	<b>88.9</b>	<b>86.5</b>

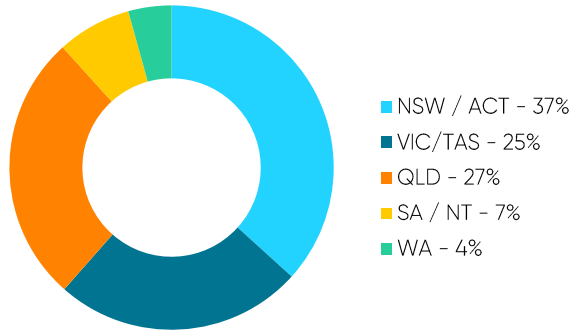
	Jun-20 \$'m	Jun-19 \$'m
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	13.6	11.1
Future trailing commissions payable	67.0	71.0
Lease Liabilities	1.1	-
External borrowings		2.5
Current tax liabilities	0.4	0.5
Provisions	1.3	1.3
<b>Total current Liabilities</b>	<b>83.3</b>	<b>86.4</b>
<b>Non-current liabilities</b>		
Future trailing commissions payable	203.7	201.4
Lease Liabilities	2.7	-
Deferred tax liabilities	31.1	32.2
Provisions	0.7	0.8
<b>Total non-current liabilities</b>	<b>238.2</b>	<b>234.3</b>
<b>Total liabilities</b>	<b>321.5</b>	<b>320.7</b>
<b>Net assets</b>	<b>88.9</b>	<b>86.5</b>

# Cash Flow Statement

	FY20 \$'000	FY19 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	196,519	195,400
Payments to suppliers and employees (inclusive of goods and services tax)	(174,221)	(176,201)
Net	22,298	19,199
Income taxes paid	(5,401)	(5,064)
<b>Net cash inflow from operating activities</b>	<b>16,897</b>	<b>14,135</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant, equipment and intangibles	(3,253)	(3,755)
Loans to franchisees net of repayments	1,130	150
Interest received	471	600
<b>Net cash (outflow) from investing activities</b>	<b>(1,652)</b>	<b>(3,005)</b>
<b>Cash flows from financing activities</b>		
Redraw/(payment) of external borrowings	(2,500)	2,500
Payment of lease liabilities	(1,017)	-
Interest paid	(47)	(56)
Dividends paid to Company's shareholders	(7,500)	(15,000)
<b>Net cash (outflow) from financing activities</b>	<b>(11,064)</b>	<b>(12,556)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,181</b>	<b>(1,426)</b>
Cash and cash equivalents at the beginning of the financial year	1,927	3,353
<b>Cash and cash equivalents at the end of year</b>	<b>6,108</b>	<b>1,927</b>

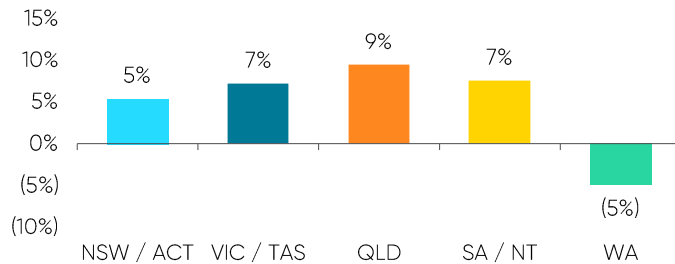
# Settlements by State

States' contribution to settlements



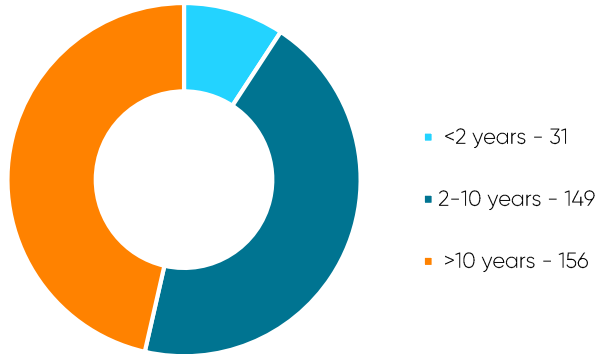
Settlements	FY20 \$m	%	FY19 \$m	%	Growth
NSW / ACT	3,678	37%	3,492	37%	5%
VIC / TAS	2,481	25%	2,315	25%	7%
QLD	2,684	27%	2,455	26%	9%
SA / NT	743	7%	691	7%	7%
WA	431	4%	452	5%	(5%)
	10,017	100%	9,405	100%	7%

Settlements growth FY20/FY19 (%)

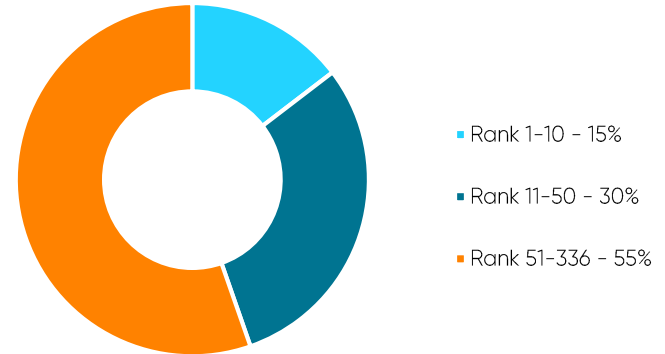


# Network Snapshot

## Franchise Owner Experience



## Franchise Owner Share of Settlements



	National		NSW/ACT		VIC/TAS		QLD		SA/NT		WA	
	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Loan book (\$b)	54.0	54.3	36.4%	36.4%	20.3%	20.0%	27.6%	27.4%	7.9%	8.0%	7.8%	8.1%
Loan writer (incl LCR)	554	562	188	190	134	141	139	132	48	48	45	51
Franchise	385	391	144	146	95	99	84	85	27	26	35	35

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## For further information

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