WT FINANCIAL GROUP LIMITED (ASX: WTL)

ASX Release 12 November 2020

FY2020 Annual General Meeting – Managing director's address

The following is a transcript of an address by Mr Keith Cullen, managing director of WT Financial Group Limited to its annual general meeting of members today, 12 November 2020.

Ladies and gentlemen thank you for joining us today.

Over the past two-and-a-half years WT Financial Group Limited 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.

The successful implementation of the strategy has seen us return to operating profit and positive operating cashflow.

Central to its strategy as our chairman Guy Hedley has mentioned has been the acquisition of our Wealth Today subsidiary which provides a comprehensive range of "dealer group" services to financial advisers.

Wealth Today is enabling us to capitalise on industry disruption created by the unravelling of institutional advice models which continues to provide a substantial expansion opportunity.

Return to operating profitability and positive operating cashflow

We are delighted to have been able to continue our growth and deliver such a significant turnaround in operating profit for FY2020 despite the economic headwinds of COVID-19, which I will touch on shortly.

Total Revenue & Other Income was up 20% to $12.80M and as Guy Hedley has highlighted, B2B revenue was up nearly 70% to $8.37M and recurring revenue up more than 30% to $8.65M. This performance has been exactly what our strategy has been targeting so it is very pleasing to be able to report such growth.

Our B2B success increased Direct Cost of Sales by 30% year-on-year to $6.70M which is in line with this strategic B2B focus.

As pleasing as the growth in revenue has been the continued cost improvements, with Total Operating Expenses excluding depreciation, amortisation, interest and tax down a further nearly 20% on last year's reductions to $4.88M.

You will of course find a more detailed explanation of these significant cost reductions in our Consolidated Financial Statements within our Annual Report, which is available online, or if you would like a printed copy, we can organise one today.

Our strong revenue growth and reductions in expenses delivered a more than 330% improvement in EBITDA to $1.21M, a strong turnaround on what was an EBITDA loss of $524k for FY2019.

Finance costs increased marginally to $281k, while depreciation and amortisation was $871k resulting in a return to underlying profitability with a normalised NPBT result of a small profit of $60k.

This was a sharp and pleasing turnaround and represented a near 100% improvement over the prior year (FY2019 loss of $1.19M).

After accounting for a one-off write-down of the sale price of the Group's internal SMSF administration operation - which I will address shortly - the statutory NPAT result was a loss of $401k, a 56% improvement on the prior year.

COVID-19 Impact

The Company has enjoyed continued growth in revenue on a Group basis since the impact of COVID-19 despite the significant challenges that the pandemic has presented.

In our Wealth Today operations, 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. A similar impact was experienced in our B2C operations as our salaried advisers committed significant time to dealing with existing clients, while new business opportunities were limited.

Group operations have been able to be readily adapted during the pandemic however, with a mix of work-from-home and video conferencing solutions implemented that enabled both B2C and B2B clients to continue to be served with limited interruption. The Group is well equipped from an operational and technological perspective to continue its operations should the impact of the pandemic continue.

Authorised for release by and for further information:
Keith Cullen
Managing director
(02) 9248 0422

There is no question that our growth trajectory has been impacted and will continue to be impacted by the pandemic, however we remain confident of 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.

Whilst it is all-but impossible to forecast what the future may hold either economically or socially as a result of COVID-19, we are confident that we will be able to continue our growth trend in revenue and profitability across FY2021 and beyond as our B2B activities increase further in scale.

Details of one-off write down impacting NPAT

In 2017, we sold our internal SMSF administration operations for a total consideration of $1.7M. This included a deferred consideration component which had been carried on the balance sheet as a receivable. The sale included an ongoing contractual obligation for us to outsource certain of our accounting practice's SMSF administration requirements to the buyer.

Prior to the end of the FY2020 we agreed to the restructuring of the SMSF Contract with the buyer. The impact of this included:

The annual cost of services provided to the Group by the buyer were reduced significantly, representing a total gain for the Group of $1.24M across FY2020 to FY2022. Obviously a very good result from a long term cashflow, profitability and asset value perspective.

In consideration of the restructured arrangements, the 2017 Sale Price was reduced to $913,000, resulting in an outstanding vendor financed component of $789k having to be written down to zero. This in turn negatively impacted the our FY2020 NPAT by a net $445k after accounting for the resulting tax benefit.

So whilst we have had to bear the short term pain, the net cash impact of restructuring the deal will be positive $451k across the three years to FY2022.

New initiatives and corporate actions

To complete our restructure program; and ensure we represents a strong and viable new home for displaced advisers; and further to ensure we are positioned to capitalise on market opportunities as and when they emerge, we implemented the following initiatives just prior to and just following the end of the financial year.

Disposal of 50% holding in B2C publishing joint-venture

We have continued to rationalise our B2C financial advice and wealth management operations conducted under the Spring Financial Group banner, which has helped deliver the significant cost reductions we've been able to achieve.

In furtherance of this strategy, just prior to FY2020 year end, we completed the sale of our remaining 50% stake in the B2C-focussed digital publisher Sharecafé Pty Ltd to our JV partner in those operations, Informed Investor Pty Ltd. The sale price of $225,000 was equal to the carrying value of the investment, so there was no net impact to either profitability or net assets.

We will continue to work closely with Informed Investor to provide certain support services to Sharecafé on a commercial arms-length basis and will further retain advertising rights on the Sharecafé website for a term of at least 18-months.

New institutional shareholder

On 6 August 2020 we welcomed The Armytage Micro Cap Activist Fund (Armytage) to our share register as a significant shareholder by way of Armytage subscribing for $500,000 new shares in the Company at the 90-day volume weighted average share price, being 3.1 cents.

The placement and subsequent on market transactions have seen Armytage on the register as a substantial shareholder with just under 10% of the Company's shares.

Unprecedented expansion opportunity

The upheaval in the financial advice industry that we have been seeing the last couple of years is far from over in our view with further disruption expected over the next several years. This provides what we see as significant expansion opportunity for the Company.

Authorised for release by and for further information:
Keith Cullen
Managing director
(02) 9248 0422

Financial product manufacturers, including AMP, NAB-owned MLC and other major banks have been reducing, closing or selling their advice networks.

We believe we are well positioned to continue capitalise on this industry disruption and we anticipate further significant growth in revenue over the next 12-18 months and beyond. We will of course also consider corporate acquisition opportunities on their merits as and when they arise – and if and when we believe they will contribute further scale and therefore margin to our operations.

In closing, thank you for the continued support during this challenging period over the past couple of years.

For a Company with a history of having distributed nearly $7M in dividends since its inception, FY2018 and FY2019 were clearly very disappointing and challenging.

FY2020 has shown that we have the impetus, and that our dedicated team of employees and contractors have the experience and ability, required for re-building long-term shareholder value and returning your Company to long term, sustainable growth and profitability.

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 manuals and handbooks on a broad range of financial an investment market topics which are available in both digital and printed form.

Authorised for release by and for further information:
Keith Cullen
Managing director
(02) 9248 0422