

Pepper Money Limited

MARKET BRIEFING

Acquisition of Stratton Finance

Accelerating Pepper Money's growth
and extending market position

April 4, 2022

A G E N D A

**Transaction
Overview**

**About Stratton
Finance**

**Strategic
Rationale**

**Other
Transaction
Details**

Disclaimer

Accelerating Pepper Money's growth and extending market position

TRANSACTION OVERVIEW

- Pepper Money to **acquire a 65%** interest in Stratton Finance (Stratton) for \$78m, reflecting 100% value of \$120m¹
- **Put and Call Option** over remaining 35% shares, exercisable from Q1 CY2024 through Q1 CY2026 – base price of \$42m subject to performance related indexation
- Acquisition expected to complete in 3rd quarter of CY2022, subject to Foreign Investment Review Board (FIRB) approval and other customary conditions precedent

STRATTON OVERVIEW

- **Leading online direct-to-consumer (D2C)** asset finance broking platform, with 23+ years of experience, strong brand recognition and trust
- **115+ internal, agented and franchisee** (brokers / loan writers), \$700m in FY2021² contracts settlements, 19k leads per month and a contact database of 1.3m+
- **Proprietary in house build** systems delivering broker efficiency and great customer experience
- Strong **profit** margins and **cash** generation

STRATEGIC RATIONALE

- Build on **strong organic growth** of Pepper Money's Asset Finance business via a **controlling stake** in one of our key Distribution Partners
- Strengthen our **D2C offering** to complement third party distribution channels
- Through close co-operation and high levels of systems integration with Stratton, continue to deliver great service, and enhance and expand our product offering to **make more Pepper Money products** the best lending solution for customers looking to finance a range of assets

Accelerating Pepper Money's growth and extending market position

FUNDING

- Initial 65% share acquisition – **cash settled**, in part funded by drawing on our Corporate Debt Facility (**CDF**)
- CDF - **\$200m** facility, currently drawn to \$50m
- Pepper Money has option to settle Put and Call Option over remaining 35% Stratton shares in cash and / or Pepper Money Limited shares
- Transaction is expected to have no impact on Pepper Money's **dividend payout ratio** or capacity to fund in-line or expansion growth opportunities

FINANCIAL IMPACT

- Ownership of a key asset finance Distribution Partner means we retain a share of Stratton earnings on loans originated to Pepper Money in addition to those originated to other lenders
- Increased Pepper Money's asset finance volumes via Stratton expected over time through superior offering: price, product and processes, together with residential mortgages and other products

Stratton operates in a large addressable market

ASSET FINANCE

\$185bn

Consumer: \$59bn¹
Commercial: \$126bn²

~1.9%³

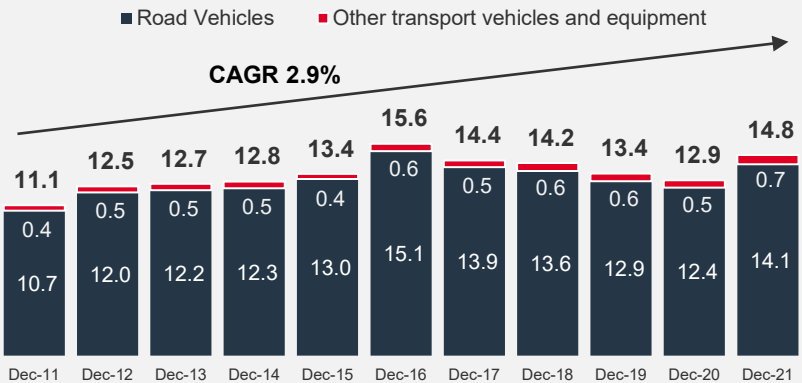
Consumer: ~3.2%
Commercial: ~1.3%

- Used cars
- Caravans
- Commercial vehicles
 - Novated lease
- Small to medium business equipment

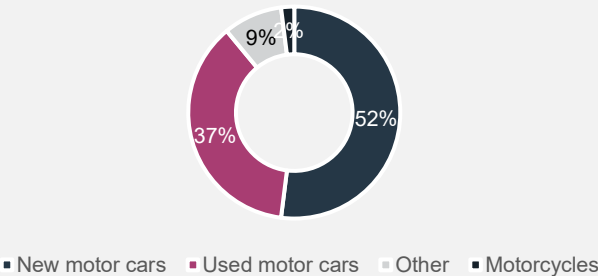
MARKET COMPOSITION

Road vehicles are the largest component of the asset finance market⁴

Australian consumer vehicle and transport equipment financing⁴
(\$ billion p.a.)



New and used cars make up the vast majority of consumer vehicle financing⁵

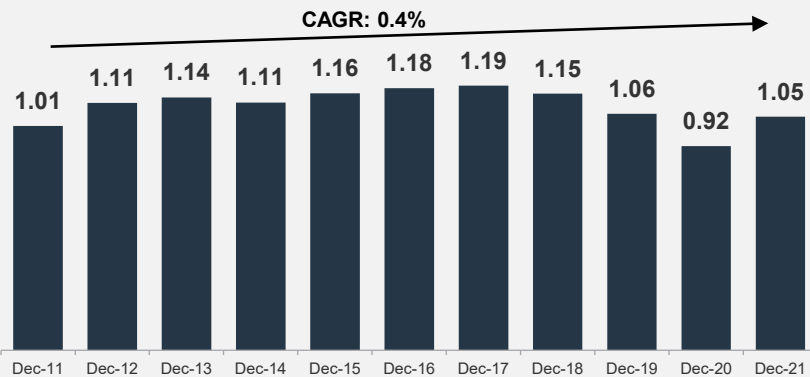


MOTOR VEHICLES



New vehicles are the largest component of the asset finance market

New motor vehicle sales⁶ (annual number of vehicles, million)



Consumers value convenience the highest when considering a loan

Most important characteristic⁷

Convenience	33%	Choosing established auto lender brand	20%
Easy pay process/auto-pay	29%	All-in rates	20%
Lowest rate for credit rating	28%	Access to loan payoff/equity status	16%
Flexibility (e.g., early termination)	28%	Receiving customised offers	13%
Simple web/app account management	22%	Access to live agent on phone	12%

1. New household loan commitments for purchase of road vehicles, other transport vehicles and equipment, New household loan commitments, ABS 5601.0 Lending Indicators Table 27, January 2021 – December 2021 (published February 2022). Assumes market size is approximately 4x lending commitments for last 12 months. 2. New business loan commitments, finance lease and fixed term, purchase of vehicles, plant and equipment, ABS 5601.0 Table 29, 31 and 33, January 2021 – December 2021 (published February 2022). Assumes market size is approximately 4x lending commitments for last 12 months. 3. Represents Pepper Money's Asset Finance AUM as at 31 December 2021 (closing) as a proportion of total consumer and commercial motor and equipment financing. 4. Personal finance, ABS 5601.0 Lending Indicators Table 27 new loan commitments, December 2011 – December 2021 (released February 2022). 5. Motor vehicle finance, ABS 5671.0 Lending finance Table 9 finance commitments, November 2018 (released January 2019). Note: Following the November 2018 series, the ABS ceased publication of this data set, with updated data not available. 6. Australian new motor vehicle sales, Federal Chamber of Automotive Industries, December 2011 – December 2021 (released February 2022). 7. Global Automotive Consumer Study 2021 Australian perspective. Q14: When it comes to your loan/lease/subscription account, what is most important to you? N= 814

ABOUT STRATTON FINANCE

Market leading brand position

Strong marketing capability driving high lead generation

Diversified loyal and high-quality customer base

Customised scalable tech platform to drive productivity and user experience

Capital light with strong earnings momentum

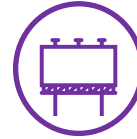
Experienced and passionate Management team

Stratton - Australia's leading online Auto Finance Broker FY2021A



\$608m+

Avg. Inbound
Enquiry Volume p/m



19k

Avg. Leads Received
p/m



1.3m+

Unique Contacts in
Database



\$700m

Total Contract Value
Settled



16k

Contracts
Settled



\$58m+

Avg. Net Amount
Financed origination p/m



\$43k

Avg. Contract
Size



\$37m




FY2021A
Pro forma Revenue¹



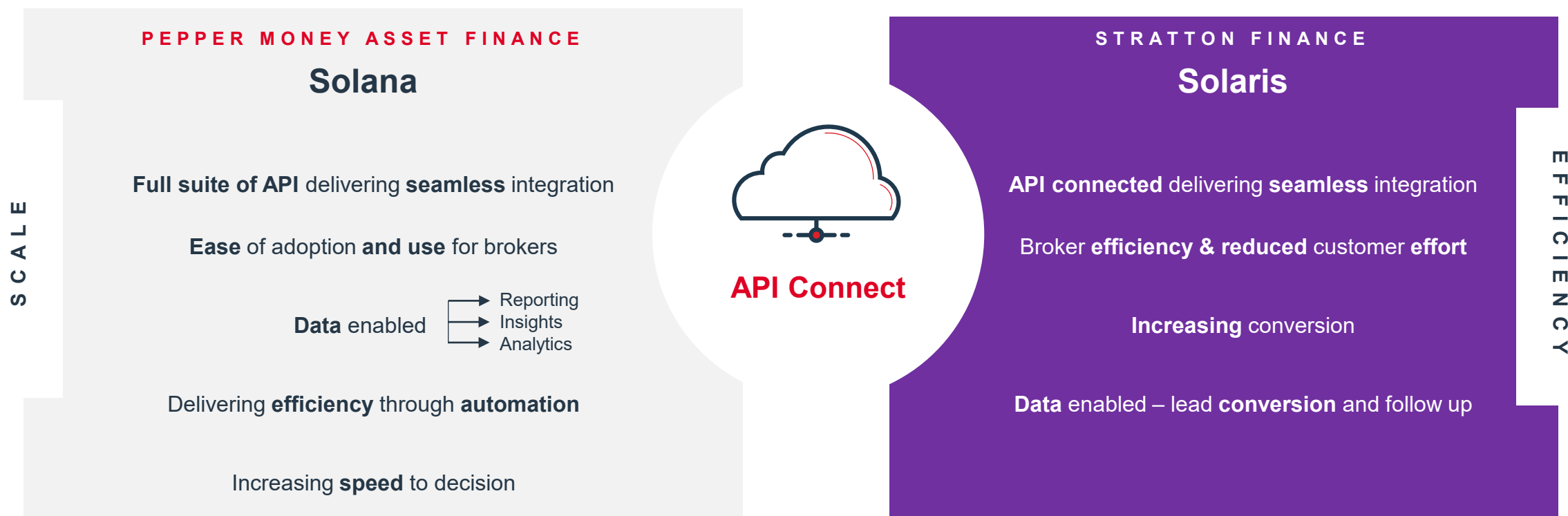
\$11m

FY2021A
Pro forma EBITDA¹

Pepper Money & Stratton – accelerating growth and extending market position

	<div></div> <div>EXTEND</div>	<div></div> <div>ACCELERATE</div>	<div></div>
ASSET TYPE	PEPPER MONEY MORTGAGES PERSONAL LOANS	ASSET FINANCE	STRATTON
CHANNEL	Broker Referral Direct to Consumer	Broker Motor dealers OEM Direct to consumer Salary Packaging	White label Direct Retention
CUSTOMER	End to end digital customer journey Improved retention capability through sharing of data Improved customer experience with deeper understanding and better alignment between broker and lender. Improved ability for both to test new products and markets through integrated offerings	Open up new markets through integrated offering	Broader customer profile Digital savvy
PRODUCT & INNOVATION	Customer contact data base Data analytics	Customer contact data base Data analytics	Personal Loans Mortgage referral Data analytics Broker to Customer Best Fit

Technology platforms - already connected and driving broker and customer experience



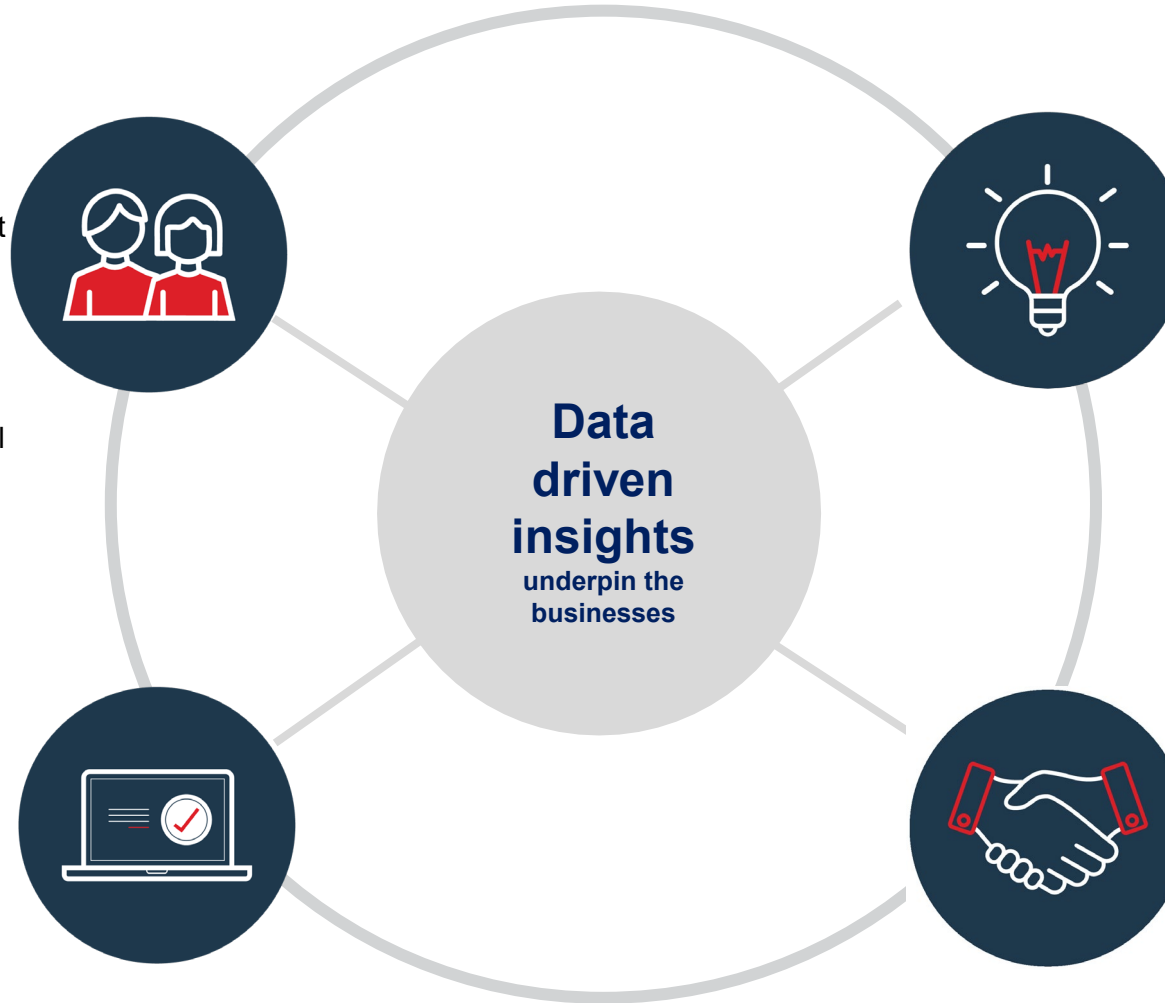
Pepper Money & Stratton – opportunity summary

DIRECT TO CONSUMER

- Extends Pepper Money's small direct footprint
- Stratton gives Pepper Money **the insights of D2C in scale**
- Stratton's **1.3m+** contact data base - data availability / customer interaction / engagement opportunity
- Stratton has lead generating capabilities - will benefit from **Pepper Money's product manufacturing** capabilities - platform for originating wide range of asset finance products, residential and small balance commercial loans, plus personal loans

CONNECTED TECHNOLOGY

- Closer connection will increase already strong integration levels and **improve operating efficiency** for each of Stratton and Pepper Money



PRODUCT & INNOVATION

- Increase insights into what customers want and **need** in asset finance products and **where** there are areas of **underserved** demand
- Combined business helps to better **refine product offering** to borrowers and introducers making Pepper Money loans the **best choice** for more borrowers

BROKER DISTRIBUTION

- Brokers continue to be **key focus** for Pepper Money
- Stratton provides the opportunity to build on relationships and to deliver **further product and technology opportunities**

Key terms

SHARE SALE AGREEMENT (SSA)

- Pepper Money to acquire **65%** of outstanding shares from existing Stratton shareholders (**Sellers**) on a pro rata basis. Consideration is \$78m, subject to adjustment to reflect that the transaction is structured on a cash-free, debt-free basis, with adjustments on account of cash and cash like assets and debt and other similar obligations
- Completion subject to (i) Australian Foreign Investment Review Board approval, (ii) Robert Jones (existing CEO) continuing in office, (iii) change of control consent under relevant leases and other material contracts. Pepper Money considers conditions may be met in June 2022, triggering completion on 1 July 2022¹
- Sellers subject to customary pre-completion restrictions and obligations
- Sellers provide customary set of warranties and limited specific indemnities. Pepper Money may set-off against or withhold from amounts payable under Put and Call Option Deed (see following) in relation to unpaid amounts owing from Sellers under warranties and indemnities

PUT AND CALL OPTION DEED (PCOD)

- To be exchanged on completion of SSA
- Pepper Money has Call Option and Sellers have Put Option over remaining 35% shares in Stratton. Each Option may only be exercised in relation to all of the remaining 35% shares, not some only
- Put Option may be exercised in March of each of CY2024, 2025 and 2026. Call Option may be exercised in Q1 of each of CY2024, 2025 and 2026
- Base Consideration of \$42m, subject to accrual at annual rate of between 7.5% and 12.5%, depending on level of achievement of Stratton against forecast EBITDA. Option settlement further adjusted to reflect cash-free, debt-free basis, as per SSA

SHAREHOLDERS DEED (SHD)

- In agreed form, to become effective on completion of SSA
- Effective for so long as Sellers remain shareholders of Stratton – will terminate on completion of any sale of shares pursuant to PCOD
- Regulates management of Stratton business whilst SHD is effective
- Pepper Money to have 2/3rds representation on Board
- Contains customary rules relating to dealing in securities including certain restrictions which apply prior to the expiry of the Call and Put Option exercise periods (end March 2026)
- Drag and Tag arrangements apply

Disclaimer

Summary information

This Presentation contains summary information about Pepper Money Limited (ACN 094 317 665) (**Pepper Money**) and its activities and is current only as at the date of this Presentation (unless specified otherwise). The material in this Presentation is given for informational purposes only, is in summary form and does not purport to be complete. It does not purport to summarise all information that an investor should consider when making an investment decision. It is intended to be read by a professional analyst audience in conjunction with Pepper Money's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (**ASX**), which are available at www.asx.com.au.

No representation or warranty, expressed or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this Presentation. In particular, no representation or warranty, express or implied, is given as to the accuracy, completeness or correctness, likelihood of achievement or reasonableness of any forward-looking statements or statements about future matters contained in this Presentation. To the maximum extent permitted by law, Pepper Money, its related bodies corporate and their respective directors, officers, employees and representatives (including agents and advisers) disclaim all liability and responsibility for any direct or indirect loss, costs or damage which may be suffered by any recipient through use of or reliance on anything contained in, implied by or omitted from this Presentation.

Reliance should not be placed on information or opinions contained in this Presentation and, subject only to any legal obligation to do so, Pepper Money does not have any obligation to correct or update the content of this Presentation. Statements in this Presentation are made only as of the date of this Presentation (unless otherwise stated) and the information in this Presentation remains subject to change without notice.

Stratton Finance information

Certain information in this presentation has been sourced from Stratton Finance Pty Ltd (ACN 070 636 903) (**Stratton Finance**) or its representatives or associates. While steps have been taken to review that information, no representation or warranty, expressed or implied, is made as to its fairness, accuracy, correctness, completeness or adequacy. [Certain market and industry data used in connection with this presentation may have been obtained from research, surveys or studies conducted by third parties, including industry or general publications. Neither Pepper Money, Stratton Finance nor its their respective representatives have independently verified any such market or industry data provided by third parties or industry or general publications.

Pepper Money undertook a due diligence process in respect of the proposed acquisition of Stratton Finance (**Acquisition**), which relied in part on the review of financial and other information provided by Stratton Finance. Despite making reasonable efforts, Stratton Finance has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it. If any such information provided to, and relied upon by, Pepper Money in its due diligence and in its preparation of this presentation proves to be incorrect, incomplete or misleading, there is a risk that the actual financial position and performance of the Stratton Finance group may be materially different to the expectations reflected in this presentation.

Investors should also note that there is no assurance that the due diligence conducted was conclusive, and that all material issues and risks in respect of the Acquisition have been identified and avoided or managed appropriately (for example, because it was not always possible to negotiate indemnities or representations and warranties from Stratton Finance to cover all potential risks). Therefore, there is a risk that issues and risks may arise which will also have a material impact on the Pepper Money Group (for example, Pepper Money may later discover liabilities or defects which were not identified through due diligence or for which there is no contractual protection for Pepper Money). This could adversely affect the operations, financial performance or position of Pepper Money.

Financial information

Certain financial measures included in this Presentation, including Underlying EBITDA, Underlying EBIT, Underlying NPAT are 'non-IFRS financial information' under ASIC Regulatory Guide 230: 'Disclosing non-IFRS financial information' published by the Australian Securities and Investments Commission (**ASIC**) and also 'non-GAAP financial measures' within the meaning of Regulation G under the U.S. Securities Act and are not recognised under AAS and International Financial Reporting Standards (**IFRS**). Such non-IFRS financial information/non-GAAP financial measures do not have a standardised meaning prescribed by AAS or IFRS. Therefore, the non-IFRS financial information may not be comparable to similarly titled measures presented by other entities, and should not be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Although Pepper Money believes these non-IFRS financial measures provide useful information to investors in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-IFRS financial information/non-GAAP financial measures included in this Presentation.

Certain figures, amounts, percentages, estimates, calculations of value and fractions provided in this Presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Presentation. All financial information in this Presentation is in Australian dollars (\$) or A\$) unless otherwise stated.

Forward-looking information

This Presentation and any related materials and cross-referenced information contain forward-looking statements, which may be identified by the use of terminology including 'may', 'will', 'would', 'could', 'should', 'expects', 'believes', 'targets', 'likely', 'plans', 'intends', 'aims', 'anticipates', 'estimates', 'continue', 'objectives', 'outlook' or similar expressions or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indicators of, and guidance on, future earnings and financial position and performance are also forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Pepper Money or any of its related entities (especially during the global COVID-19 pandemic), and which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Readers are cautioned not to place undue reliance on forward-looking statements.

Disclaimer

No representations, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this Presentation will actually occur. The information provided in this Presentation is for illustrative purposes only and is not represented as being indicative of the Pepper Money's views on its future financial condition and/or performance.

Past performance

The past performance and position of Pepper Money reflected in this Presentation is given for illustrative purposes only. Past performance of Pepper Money cannot be relied upon as an indicator of (and provides no guidance as to) the future performance or condition of Pepper Money, including future share price performance.

No offer of securities

This Presentation is for information purposes only and is not a prospectus, product disclosure statement or other offering document under Australian law or any other law (and will not be lodged with ASIC or any other foreign regulator).

Nothing in this Presentation should be construed as either an offer or a solicitation of an offer to buy or sell Pepper Money securities. Information in this Presentation is not intended to be relied upon as advice to current shareholders, investors or potential investors and does not take into account the financial situation, investment objectives or needs of any particular investor. Before making any investment or other decision, investors should consider these factors, and consult with their own legal, tax, business and/or financial advisors.

Investor Relations

Catherine Buckmaster

T +61 2 7227 3879

E cbuckmaster@pepper.com.au

Media Relations

Domestique Consulting

Helen Karlis

M +61 (0) 419 593 348/

E helen@domestiqueconsulting.com.au

Celia Moore

M +61 (0) 432 344 069

E celia@domestiqueconsulting.com.au



For more information visit
www.pepper.com.au