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ASX Announcement.

9 May 2024

Judo Update on Strategy and Financial Performance

Judo Capital Holdings Limited (ASX: JDO) ("Judo Bank", "Judo", "the Bank") today provided an update on its strategy and financial performance, to be presented at the Macquarie Australia Conference.

The presentation, including the financial performance update, is attached to this announcement.

Strategy and Operating Model Update

Judo Bank is now an established player in the Australian Small and Medium Enterprise (SME) business banking market, with a diversified loan book exceeding $10bn, an award-winning deposit franchise and a strong brand. As the Bank has continued to scale, a range of new opportunities to meet SME customers' needs is opening up, including lending to new segments, extending the current product set and growing into new regions.

With effect from 1 July, Mr Frank Versace is appointed to the role of Chief Strategy and Growth Officer, responsible for the execution of new growth opportunities for the Bank. Mr Versace is currently Chief Risk Officer and previously led Judo's relationship function. A process is underway to replace the Chief Risk Officer role.

Alongside Mr Versace, Mr Stephen Mifsud has been appointed to the role of Executive General Manager, Relationship Banking, accountable for the execution of the Bank's relationship strategy nationally. Mr Mifsud has been Managing Director, Relationships since December 2018.

At the same time as growing its lending franchise, Judo has also continued to rapidly execute its technology investment program. Over the past two years, Judo has upgraded several core platforms to best-in-class scalable solutions. This includes the lending and deposit origination, digital banking, and enterprise data platforms, with the credit risk engine and general ledger platforms well progressed. In addition, over the past nine months, Judo has partnered with global provider Thought Machine to develop a new core lending platform which has now entered pilot phase.

Recognising that Judo's business priorities are evolving and to set the business up for its next stage of growth, the Bank is making some changes to its operating model. As a result of continued scaling, as well as progress made with technology and automation, the Bank has identified some non-customer facing roles that are no longer required. These changes will allow Judo to recruit more relationship bankers, continue growing into new regions, and further invest the Bank's growth agenda.

CEO Chris Bayliss said "I am very pleased to announce the appointment of Frank and Stephen to their new roles. Both have distinguished business banking credentials and in-depth understanding of Judo's customers and our unique value proposition.

"I strongly believe that the changes we are making to our operating model set us up to deliver continued strong growth and the operating leverage inherent in our business model. We have continued to recruit more relationship bankers and execute our strategy to expand into new regions."

Q3 2024 Financial Update

Trading for the nine months ending 31 March 2024 has been in line with management's expectations, with profit before tax (PBT) of $93.1m driven by continued strong lending growth and the Bank's disciplined approach to managing the business.

Judo's Gross Loans and Advances (GLA) stand at $10.2bn as of 8 May 2024. In addition, Judo's AAA (applications, approved and accepted) pipeline of lending is now at an all-time high of $1.7bn, at an average margin over BBSW of approximately 4.4%.

On funding, Judo's deposit balance has grown by around $700m since December to $7.6bn, with new deposit pricing consistent with the Bank's long-run expectation of 80-90bps over BBSW. Demand for Judo' wholesale deposit products have also increased following the upgrade of Judo's credit rating to BBB by Standard & Poor's. The refinancing of the Reserve Bank of Australia's term funding facility (TFF) is almost complete, and Judo remains on track to repay the TFF facility by the end of June.

As expected, customers in 90 days past due and impaired have increased. As at March, Judo's 90 days past due and impaired loans were 2.63% of GLA, up from 1.73% in December. The increase was primarily driven by four loans with strong property security in the manufacturing and property segments. Security coverage for the manufacturing segment sits at 85% and for property sits at 100%. Further, Judo carries elevated provisioning for the manufacturing sector as part of the Bank's vulnerable sector overlay and holds high overall levels of provisioning at 146bps of GLA in light of the economic environment.

Customers in 90 days past due and impaired have reduced modestly in April and the Bank has reconfirmed its existing guidance for FY24 cost of risk of $60-70m.

Mr Bayliss added "We are pleased with our year-to-date performance. Demand for lending has picked up substantially since the beginning of the calendar year, and our AAA pipeline is now at an all-time high, positioning us well for the June quarter and into FY25.

"The impacts of higher interest rates and inflation continue to work their way through the economy. As expected, our credit quality metrics continue to normalise and we have seen more customers enter arrears, with our approach remaining to assist and work with impacted customers during this challenging period. Most of the increase over the quarter relates to four loans which carry a significant amount of property security, hence we are reconfirming our cost of risk guidance for FY24. We also remain comfortable with our at-scale cost of risk assumption of 50bps of GLA.

"Our funding transition is almost complete, with deposits on track to be 60% of total funding by June. We are well progressed with our TFF repayment strategy, and we continue to see strong deposit inflows. We are now funding most of our lending growth with deposits, reducing our reliance on more expensive warehouse funding."

Guidance

As a result of changes to its operating model, Judo expects to incur a one-off restructuring provision in FY24 of approximately $4m.

Judo is also recognising an expense of approximately $3m in FY24 in relation to outgoing CEO Joseph Healy's remuneration entitlements.

Total non-recurring items impacting FY24 are expected to be approximately $7m.

With the inclusion of non-recurring items, Judo now expects FY24 PBT to be in the range of $100m - $105m.

Excluding the non-recurring items identified above, Judo's FY24 PBT guidance is unchanged, and is expected to be in the range of $107m - $112m.

FY25 guidance is also unchanged, targeting growth in PBT of 15% or higher in FY25 versus FY24 PBT excluding non-recurring items.

Mr Bayliss concluded "With our core franchise performing well and new lending opportunities opening up, I have never been more excited about the future of the Bank. We are on track to achieve our vision of creating a world-class SME business bank that generates a return on equity in the low to mid-teens."

Authorised for release by the Board.

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Good morning.

My name is Chris Bayliss. I am the CEO of Judo and one of the Bank's co-founders, along with our former CEO Joseph Healy, David Hornery who remains on the Board, and a group of other highly experienced career bankers.

I was appointed CEO in March of this year. Since co-founding the business in 2016 I have done every job in the bank, including CFO, CRO, Tech and Ops and most recently Chief Relationship Officer and Deputy CEO.

Judo is more than just a job to me - I am passionate about the role we play in the society, meeting the funding needs of SMEs who are the backbone of the Australian economy.

I have been involved in every major strategic decision for the bank since it was founded, so I have no intention of changing our clear strategy. However, as a business we have reached a threshold size that gives us additional optionality.

It is with this lens I have announced some operating model changes today which I believe set the business up well for our next stage of growth. These are covered in the ASX announcement we released this morning, and I will discuss in more detail through this presentation.

Judo is a specialist pure play bank that lends exclusively to Small and Medium Enterprises or SMEs.

We define SMEs as businesses with turnover of between $1 and $100m and debt requirements of between $250k at the low end, and $35m at the upper end for a new to bank customer. Our average loan size is $2.4m.

Our purpose is to be Australia's most trusted SME business bank, and our vision is to be a world class bank, which we define as ROE in the low to mid-teens, and market leading NPS and employee engagement.

The idea of Judo was conceived in response to a market failure in the provision of credit to SMEs by the incumbent banks.

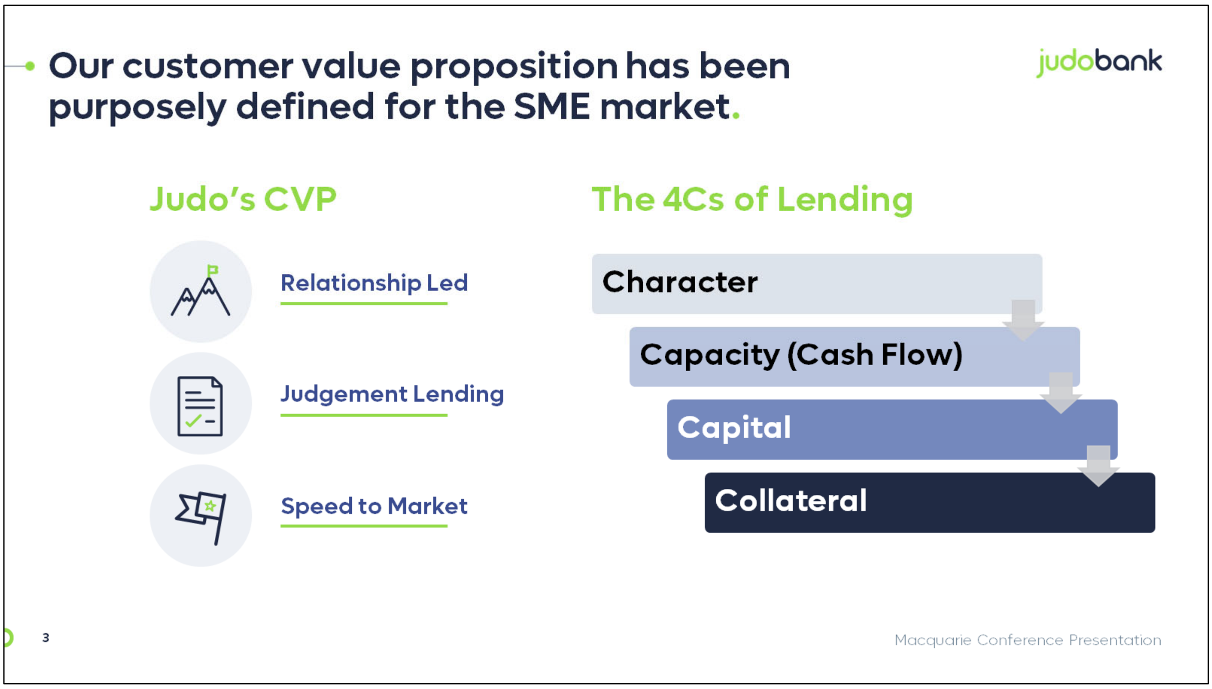
Over the past two decades the industry has industrialised its offering to SMEs. This was a rational response to the introduction of the Basel 2 capital accord which assigned higher risk weights to business lending and therefore lowered the returns relative to mortgages.

To support returns in business lending, the industry has greatly reduced the number of relationship bankers, replacing fundamental credit assessment with simply lending against property collateral.

As a result, there are many good businesses that cannot access the funding they want. Net promotor scores for business banking are generally negative or in the low single digits, giving an indication of customer satisfaction with the broader industry's approach.

At the time of our IPO, we estimated that the size of our total addressable lending market for SMEs was $605bn, which included $70bn of unmet credit demand, effectively the gap between the credit that SMEs want but are unable to get.

Fast forward to today, and as many of you know the Australian mortgage lending market is extremely commoditised and competitive, and the banks often talk about rediscovering their love for business lending. However, it is hard for them to change and replicate the Judo model because industrialisation is hard to unwind, their cultures are now heavily sales-focused, and they have deskilled.



We are a true specialist, and our business has been designed from a blank sheet of paper, combining the best of the old with the best of the new. We have brought back the craft of relationship banking with highly skilled business bankers who understand their customers' businesses and are empowered to lend to them.

Our relationship-based approach to lending is the core of our customer value proposition, so our economics are predicated on having a large workforce of relationship bankers with much smaller portfolios than average for the industry. Our bankers today have on average 30 customers each, vs the industry average of 100 or more.

As well as giving customers what they want – which is access to a dedicated banker – our low ratio of customers to banker gives us an advantage when it comes to identifying and supporting customers when they occasionally find themselves in difficulty.

We aim to recruit the best business bankers in the country, and we put all our bankers through a credit exam which has a pass rate of only 50%. We also have an industry leading training program.

Our economics allow us to be overweight bankers because we have none of the legacy costs of the incumbent banks. As a purpose-built bank we have no legacy branches, products, compliance agenda or legacy culture. We were born in the cloud with a modern technology platform, unlike the aging systems of many of our competitors.

In terms of how we lend, in contrast to the industry which defaults to lending 70% of the value your property, we follow the 4C's of credit which is exactly the way I was trained at Barclays in the 80s.

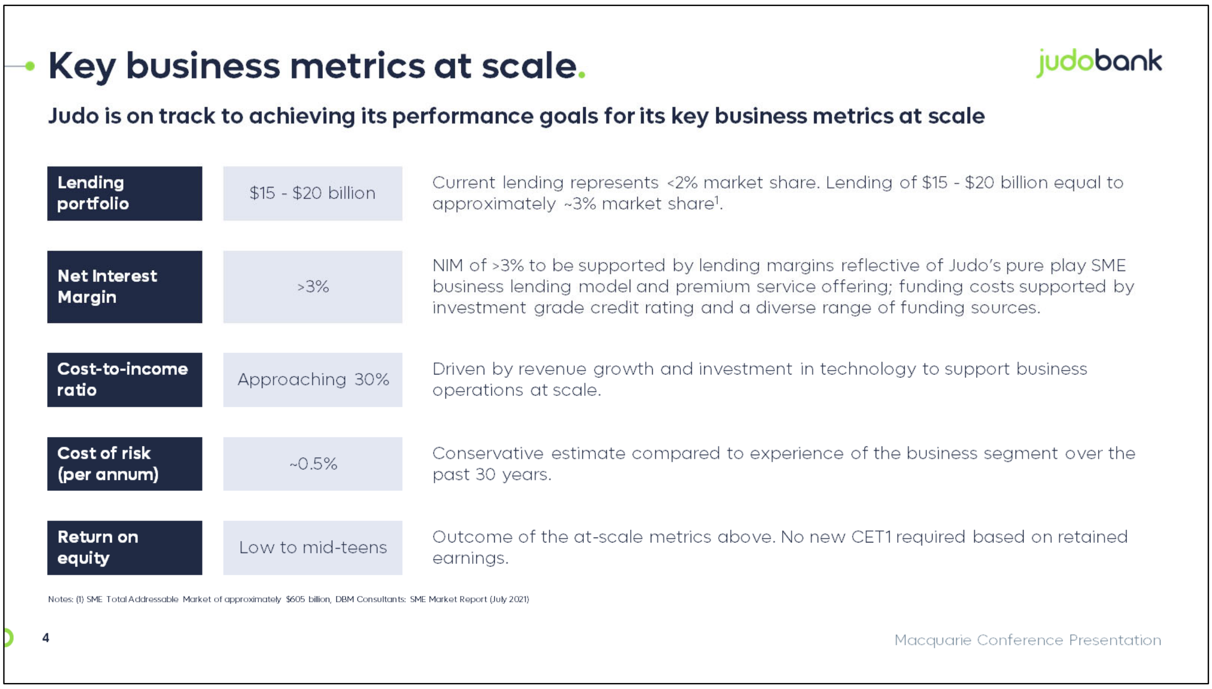
Judo's 4Cs of credit are Character, Capacity, Capital, and Collateral, in that order.

- Character refers to the business owners' experience and track record. We do not lend a dollar to anyone that doesn't pass the first C.
- Second is the cash flow of the business.
- Third is capital.
- Fourth is collateral, which is where the industry typically goes first.

We do not do any unsecured lending. 84% of our portfolio is secured by property, and the remainder is secured by balance sheet assets with fixed and floating charges and directors guarantees.

Typically, however there is a story to our customers' credit applications. Our ability to apply judgement means we are better placed than our competitors to assess the credit. Other banks may get there, but it will be a long, torturous, and uncertain process.

We don't compete on price; we compete on service.



We have not been able to find a perfect comparable company for Judo anywhere in the world. There are no other listed pure play specialist SME lenders.

To help investors value us, at our IPO we outlined the economics that we believe we can achieve when we have reached scale.

We remain as confident in these metrics today as we did at the time of the IPO and we are on track to achieve them.

We have defined scale not in terms of time, but rather the size of our loan book.

We consider scale to be when we reach a $15bn - $20bn loan book.

The at-scale NIM is a function of our average lending margin of ~450bps over swap, which includes a 50bps premium for service.

We assume an all-in funding cost of ~1% which is mostly deposits complemented by a full suite of wholesale funding instruments.

We also allow for a 20-30bps drag for liquidity.

Our current performance shows that a NIM of 3% remains a reasonable long run assumption.

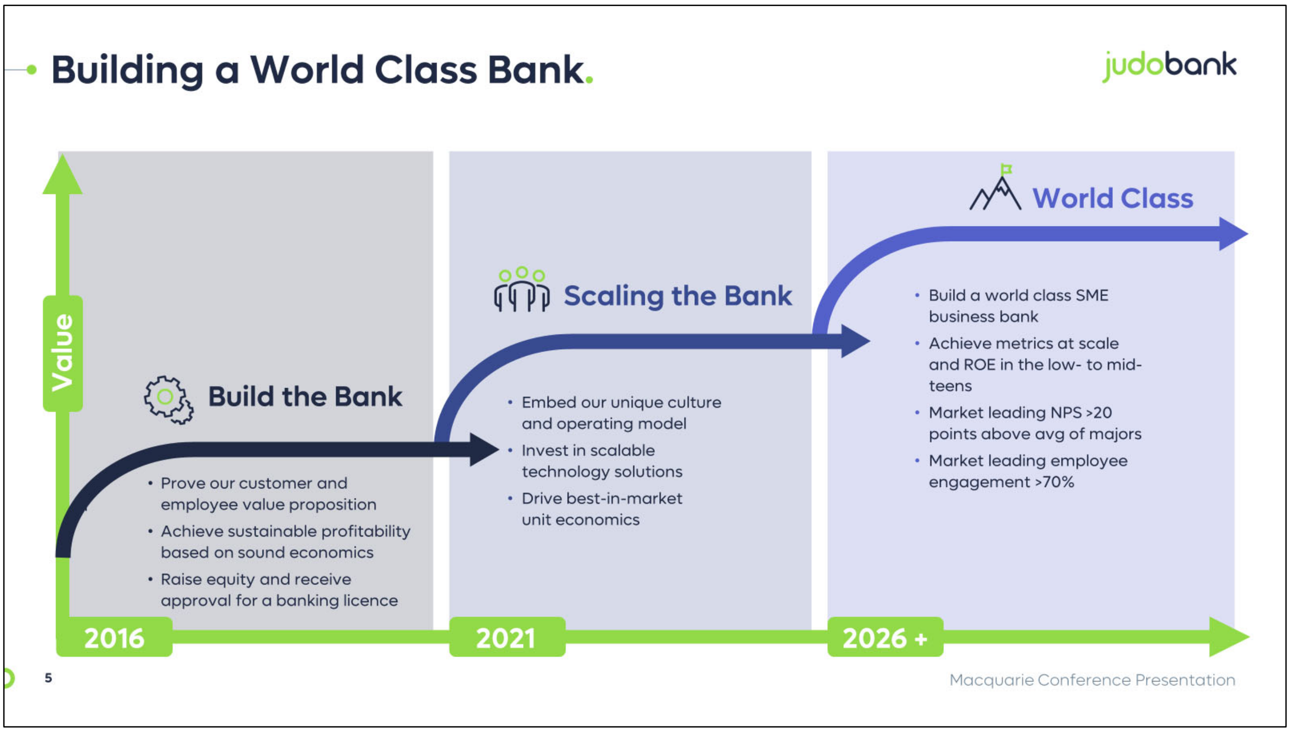
We are targeting an at-scale cost-to-income ratio of approaching 30% which benefits from the operating leverage an above average NIM and the lack of legacy costs.

We assume our annual bad debt charge at-scale will be 50bps of total lending assets, which is conservative vs the long run average for the industry which is ~30bps.

Combining all these metrics will deliver a return on equity in the low to mid-teens.

We reached profitability as a business in FY22. This year our ROE will be in the mid-single digits, on the pathway to our at-scale ROE.

Scale is our best friend. Our cost base is now levelling out meaning we will deliver significant operating leverage in coming years.



Let me now talk about our journey taking Judo from a PowerPoint presentation to a scale bank.

We have always talked about the Judo journey as having three distinct chapters: Chapter 1, build the bank; Chapter 2, scale the bank; and Chapter 3, become a world class SME business bank.

We have completed the first chapter of building a bank and transitioning to the public market, and we are now well progressed through the second chapter of scaling a bank, embedding our culture and investing in processes and systems to enable sustainable long-term growth.

The next phase is delivering world-class economics and delivering the operating leverage inherent in our business model.

The journey of taking Judo from a PowerPoint presentation to an established bank has involved balancing lots of trade-offs and dealing with lots of surprises along the way.

The first surprise was when we launched as a non-bank. We were funded by warehouses from domestic banks with covenants that effectively meant we could only do the type of lending that they were doing.

The second surprise was convincing our regulator and investors that we could reach profitability quickly and that our approach to underwriting was conservative. This meant we had to make tactical investment decisions, particularly for tech, and we have not utilised our full risk appetite as our tolerance for any large single name losses was practically zero.

Zooming out, these challenges are behind us. We have now been a licensed bank with APRA for five years, our loan book exceeds $10bn and our deposit balance is over $7.6bn.

As we approach the end of our second chapter of scaling the bank, we are now finally in a position to bring the bank we originally envisaged to life, with a diversified loan book that represents the SME economy, strong profitability and the ability to fund asset growth via deposits.

There are things we can do with a $10bn balance sheet and $100m of annual PBT that we could not do as an unprofitable bank at half the size.

An array of new growth opportunities is opening up that will support continued above-system growth and progress to our at-scale targets.

This includes simply growing into our original risk appetite, as well as new products and segments.

Today we have announced the creating of a new role of Chief Strategy and Growth Officer, reporting to me, which will have responsibility for ensuring we capitalise on these opportunities, to really drive sustainable growth and ROE.

The new growth opportunities will complement the strength of our core lending proposition, which will continue to deliver strong growth as we recruit more bankers and expand into the regions.

On the first slide I showed our current footprint of now 20 locations nationally, with 137 bankers. We are in full swing with our regional expansion strategy, and we are actively recruiting in several new regional locations. We plan to recruit another 20 relationship bankers by the end of this calendar year and build a presence in another 8 regional locations.

Transition to strategic, scalable platforms near complete.

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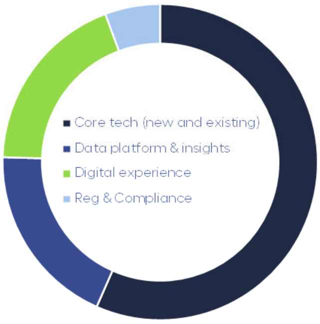
Indicative profile of technology investment spend



Platform	Details
Lending & deposit origination	Completed transition to nCino
Data Platform	Completed transition to Microsoft Azure
Digital	Completed transition to Backbase
Credit risk engine	New Moody's platform is in production, completing final testing
Core lending	Thought Machine platform in pilot phase
Core deposits	Currently on Temenos
ERP	Build of new Oracle platform underway; migration planned for 1H FY25
CRM / Workflow	New Salesforce platform is in production
Reg & Compliance	Ongoing investment in a number of platforms

Total technology capex of ~$100m over FY22-FY27

6 Macquarie Conference Presentation

As well as scaling our loan book and brand, the other critical element of our second chapter has been scaling our technology, and transitioning from our early tactical solutions to best-in-class systems that would be scalable.

At the IPO we outlined that we would invest $100m of capex in technology. This included investing in our core systems and building the digital and data capability required for a full-scale bank.

We are very well progressed with this work. Over the past two years we have upgraded our lending and deposit origination, digital banking, and enterprise data platforms.

We are well progressed with our credit risk engine and general ledger, which should be completed by the end of this calendar year.

We have also chosen to partner with Thought Machine, a global cloud-based core banking provider, to develop a flexible core lending platform for our specialist SME lending model.

We have built and entered pilot phase with Thought Machine in just nine months, which is unprecedented in terms of pace to build a core banking platform.

The successful migration to these systems, which form the backbone of the bank, is a significant accomplishment.

This demonstrates the significant advantage we have as a cloud-native bank with a simple product set.

3Q24 Trading Update.

Strong operating performance underpins pathway to improving ROE

Metric	YTD to 31 March 2024
Profit before tax	$93.1m
Net interest margin	2.98%
Cost to income ratio	52%
Cost of risk	$50.2m
Lending portfolio (8-May)	$10.2bn
3Q24 Front book lending margin over 1m BBSW	4.41%
AAA Pipeline (applications, accepted, approved) (8-May)	$1.7bn
Relationship Bankers (8-May)	137
90+ days past due & Impaired assets (% of GLA)	2.63%
Total provision coverage (% of GLA)	146 bps
CET1 Ratio	15.8%

7 Macquarie Conference Presentation

Turning to our current trading performance.

We are pleased with our year-to-date performance. Our PBT of $93.1m for the year to March has been underpinned by our continued strong lending growth, which is 3 times system, and our disciplined approach to managing the business.

Demand for lending has picked up substantially since the beginning of the year. Our loan balance was $10.2bn as of yesterday, and our pipeline of lending is now at an all-time high of $1.7bn, at an average margin of approximately 4.4%. This sets us up well for the June quarter, which is traditionally our strongest quarter of growth, and into FY25.

Our YTD NIM of 2.98% reflects the drag from repaying the TFF and the transition of our funding stack, which has been well flagged with the market.

On the funding side of the business, we have almost completed the repayment of the RBA's term funding facility and we are seeing continued strong growth in deposit inflows, with almost $700m in inflow since December, at pricing that is consistent with our long-run expectation of 80-90bps over BBSW.

We are now funding most of our lending growth with deposits, reducing our reliance on more expensive warehouse funding. We are on track for deposits to be 60% of our funding stack by 30 June.

While most of our deposits have been sourced from direct channels, we have also seen increased demand from wholesale investors following our credit rating upgrade to BBB from S&P.

As expected, our arrears metrics have continued to normalise and customers in 90 days past due and impaired have increased. As at March, our 90 days past due and impaired loans were 2.63% of GLA, up from 1.73% in December.

Our metrics are still impacted by the law of small numbers with the increase driven primarily by four well secured loans, noting that three of the loans were no longer in the 90 days bucket in April, contributing to a modest reduction in our over 90 days past due and impaired metric over the month.

I would also make the point that credit quality needs to be assessed as a function of three things: arrears, provisioning and write offs. Our total provisioning levels are very high at 1.46% of GLA, including an economic overlay for vulnerable sectors, and our write offs since inception have been minimal.

This lack of write offs creates some “indigestion” in our numbers, where we have more loans entering arrears and impaired than are being resolved. We have no concerns about this because SME loans can be complex, and we take time to reach the best possible resolution for both the customer and the bank.

In time, the indigestion will normalise as more loans are resolved.

For these reasons we are reiterating our existing range for FY24 cost of risk of $60-70m, and we are comfortable with our long run cost of risk forecast of 50bps of GLA.

In terms of expenses, we are on track to achieve our FY24 CTI guidance of 55-57% excluding one-offs, noting that our underlying CTI will be higher in Q4 due to some seasonality in our expenses.

Lastly, in terms of capital, we remain extremely well capitalised with CET1 of 15.8%, which will support our lending growth to scale.

FY24 guidance.

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Reaffirming FY24 PBT guidance excluding one-off items. FY25 guidance is unchanged.

Judo expects one-off expenses totalling of ~$7m in FY24, resulting in PBT expected to be in a range of $100 – 105m. The one-off expenses relate to CEO succession and restructuring costs. FY25 guidance is unchanged.

Metric	Detail	FY24 Target
GLA	Prudent approach to managing growth and margins within risk appetite, supported by 140 bankers and 21 locations by 30 June 2024	$10.5bn – 10.7bn
NIM	Trough NIM in 2H24. Liquidity management to result in FY24 NIM at the top of guidance range	2.85% – 2.90%
Underlying CTI	Disciplined investment in scaling the bank	55% – 57%
COR	Continued increases in provisioning and write offs to result in COR at the top end of the guidance range	$65m – $70m
Underlying PBT	2H24 Underlying PBT of $40m - $45m	$107m – $112m

8 Macquarie Conference Presentation

Moving now to the outlook and guidance.

We have disclosed today that we expect one-off expenses of approximately $7m in total this year due to our CEO succession event (~$3m) and restructuring costs (~$4m).

On an underlying basis however, our FY24 guidance is unchanged, and we expect to deliver PBT of between $107m and $112m.

We expect lending growth to remain above system, and we are reconfirming our guidance for GLA of between $10.5 and $10.7bn in June. Growth will be supported by continued recruitment of bankers and expansion into new regions. We expect to have 140 bankers by June, with more recruitment planned through to December.

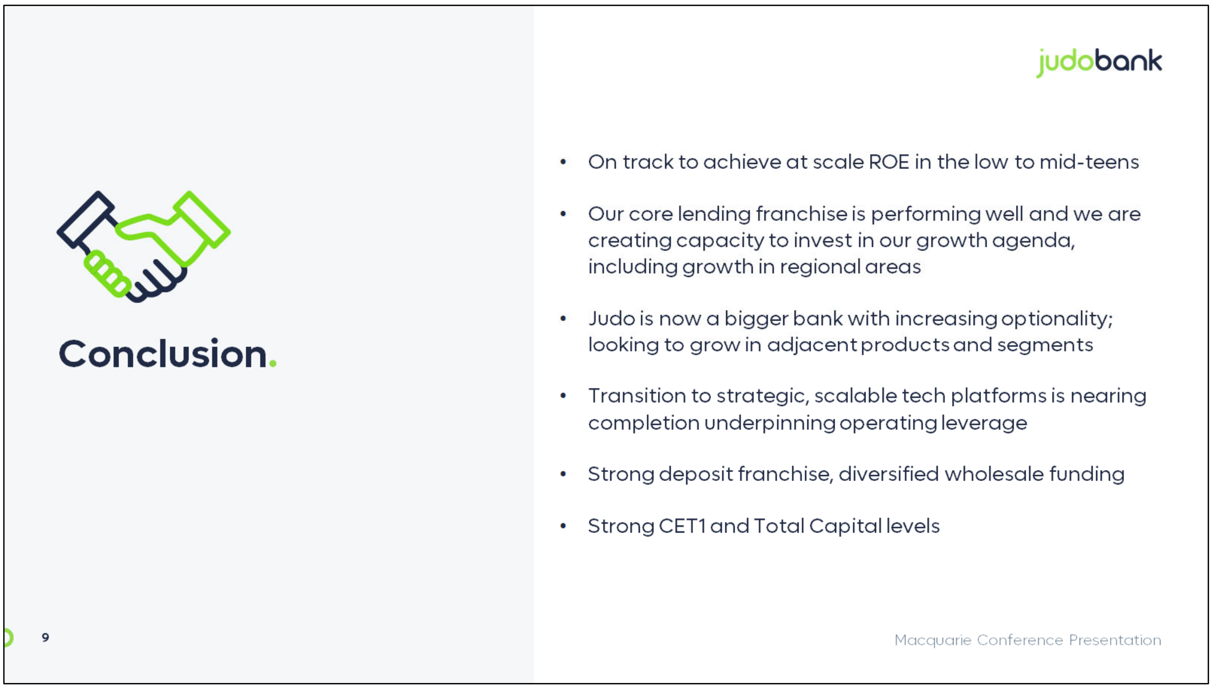
We now expect NIM for FY24 to be at the top end of the previously guided range of 2.85% – 2.90% range, which includes the impact of refinancing the TFF. This slight improvement in NIM outlook is a result closely managing our liquidity.

We will continue to be disciplined in terms of costs and expect CTI to be between 55-57% for the full year, excluding the one-off items.

As discussed on the previously slide, we expect our cost of risk to be towards the top of the previously guided range of $60-70m.

I want to call out that while $107 – 112m PBT may look low given our YTD PBT of $93m, the last quarter will be impacted by a seasonal increase in costs and our final TFF repayments.

Beyond FY24, we are also reiterating our guidance for FY25 which is for PBT growth of 15%, against our original FY24 PBT range.



In closing, we have a clear strategy to build a world class SME business bank that delivers ROE in the low to mid-teens.

We have navigated a significant amount of complexity to turn our vision into a reality, and we have now reached a threshold point in our journey.

With our core lending franchise performing well and our now significant balance sheet, we have increasing optionality for growth. We are expanding our presence into new regions and we are looking at adjacent products and segments to augment our growth.

We have an advantage as cloud native bank with a simple product set. Our transition to strategic, scalable platforms is nearing completion, which underpins our ability to deliver significant operating leverage.

We have also built an incredible deposit franchise that can fund the majority of our growth. We are no longer reliant on expensive wholesale debt or warehouses with lending restrictions.

In short, I have never been more excited about the outlook for our bank.

Thank you, and I now look forward to your questions.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Thank you.
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A glossary of key terms is included in the Judo 2024 Half Year Report.

Authorised for release by the Judo Board.

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