

1H 2019 Financial Result

ASX Release – 18 February 2019

1H 2019 Underlying EBITDA of \$24.8 million.

Netwealth Group Limited (Netwealth, ASX: NWL) the largest specialist platform provider (SPP) in the Australian market is pleased to announce its half year results to 31 Dec 2018.

Results Overview

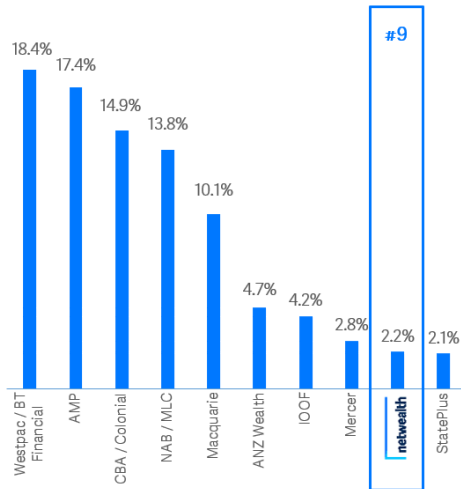
- Underlying EBITDA¹ of \$24.8 million - an increase of \$4.3 million (21.2%) on prior comparative period (PCP).
- Underlying EBITDA¹ margin of 51.5% - an increase of 1.0% on PCP.
- Underlying NPAT¹ of \$17.0 million - an increase of \$3.0 million (21.2%) on PCP. Underlying NPAT¹ margin of 35.4% - an increase of 0.7% on PCP.
- Total revenue of \$48.2 million an increase of \$7.7 million (19.0%) on PCP.
- Funds Under Administration (FUA) net inflows for the half year were \$1.9 billion and market movement was negative \$0.9 billion, resulting in FUA of \$19.0 billion at 31 Dec 2018.
- FUA increased by \$3.6 billion (23.0%) over the 12 months to Dec 2018.
- Underlying operating net cashflow pre-tax¹ of \$25.1 million and a high underlying cash conversion ratio of 101.3%. Netwealth remains debt free.
- On 18 Feb 2019 the board declared a fully franked interim dividend of 5.5 cents per share totalling \$13.1 million for 1H 2019. The interim dividend is payable on 28 Mar 2019. The ex-dividend date is 25 Feb 2019.

Opportunities for Netwealth

- Operating in a market size estimated at \$860 billion, Netwealth is the largest SPP and 9th largest overall platform, holding 2.2% market share².
- Netwealth expects to benefit from continued strong flows and growth in the overall platform market.
- In the latest September 2018 Strategic Insights quarterly platform market update, Netwealth achieved the highest platform flows for the 12-month period to September 2018 of \$4.4 billion (51.4% of total platform market flows). Netwealth won FUA net flows of 23 times its relative market share of 2.2%.
- Our brand recognition has increased significantly among financial intermediaries and clients since our successful listing on the ASX in Nov 2017.
- Our strong brand together with our commitment and focus on providing excellent product, service and leading technology supports our ability to win new and retain existing business.
- We view that many of the recommendations of the Royal Commission will lead to further growth of our core business, as detailed below.
- We remain confident of continued strong growth, based on our pipeline of wins and recent opportunities, given our leading market position and the significant competitor and industry changes which are occurring.

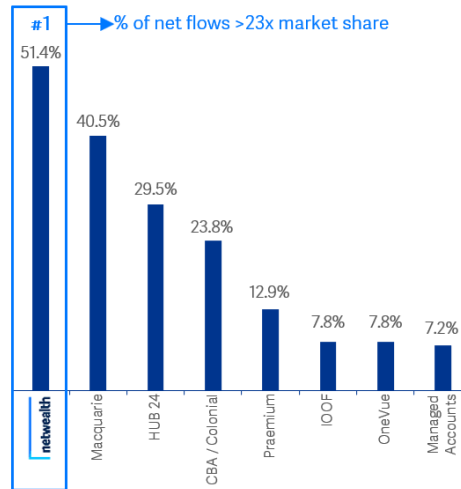
1. Underlying EBITDA, NPAT and Operating Cashflow has been prepared to exclude non-recurring expenses for 1H 2019 and consistent with pro forma calculations for 1H 2018. Reconciliation provided in the 1H FY2019 Results presentation.
2. Strategic Insights: Master Trusts, Platforms and Wraps (Jun 2018 & Sep 2018)

Platform providers by FUA market share⁽¹⁾ % market share (Sep 2018)



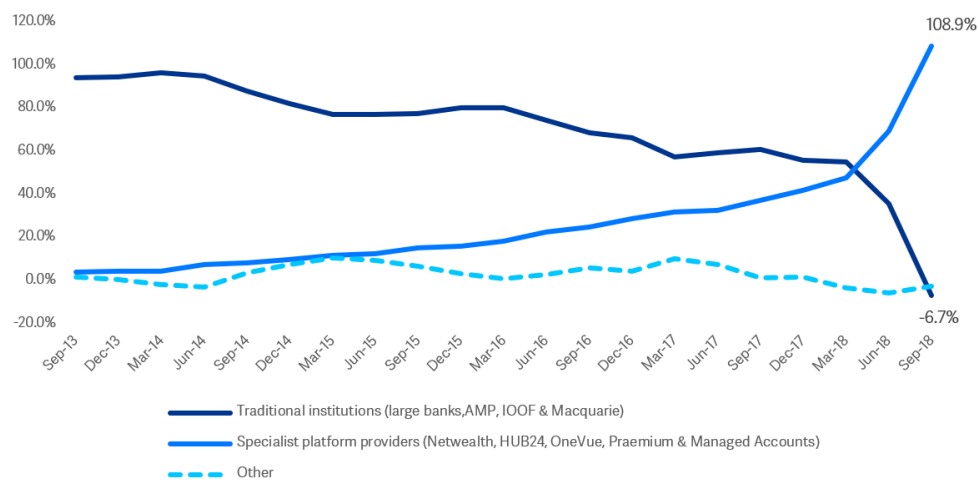
Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2018)
 (1) Total industry retail FUA of A\$859.9bn (as at Sep 2018)

Platform provider net funds flows⁽²⁾ % market share (12 months to Sep 2018)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2018)
 (2) Total net flows of A\$8.6bn (12 months to Sep 2018)

Market share percentage of net funds flows (12 month rolling)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2018)

Financial and Metrics Summary

Financials	1H 2018 Actual	1H 2019 Actual	Change	% Change
Platform Revenue	39.8	47.1	7.2	18.2%
Other Income	0.7	1.1	0.5	69.7%
Total Income	40.5	48.2	7.7	19.0%
Employee Benefits Expenses	(13.6)	(16.0)	2.4	17.6%
Other Costs & Expenses	(6.4)	(7.4)	1.0	15.2%
Total Operating Expenses	(20.0)	(23.4)	3.4	16.8%
Underlying EBITDA	20.5	24.8	4.3	21.2%
Underlying EBITDA Margin %	50.5%	51.5%	1.0%	
Non Recurring Expenses	(12.1)	(1.1)	(11.0)	(90.7%)
EBITDA	8.4	23.7	15.3	182.3%
EBITDA Margin %	20.7%	49.1%	28.4%	
Underlying NPAT	14.1	17.0	3.0	21.2%
Underlying NPAT margin %	34.7%	35.4%	0.7%	
NPAT	5.6	16.3	10.6	189.7%
NPAT margin %	13.9%	33.7%	19.8%	
Underlying Operating net cash flow pre tax	18.9	25.1	6.2	32.8%
Cash conversion ratio to EBITDA	92.5%	101.3%	8.8%	
EPS based on Underlying NPAT (cents)	5.8	7.0	1.2	

\$M unless otherwise stated

Platform Statistics	1H 2018 Actual	1H 2019 Actual	Change	% Change
Funds Under Administration				
FUA (eop)	15,436	18,988	3,552	23.0%
Fee Paying FUA %	65.2%	62.3%	(2.9%)	(4.4%)
FUA net inflows	1,847	1,936	89	4.8%
Funds Under Management				
Managed Account	1,406	2,114	708	50.4%
Managed Funds	1,020	1,025	5	0.5%
FUM (eop)	2,426	3,139	713	29.4%
Managed Account net inflows	562	328	(234)	(41.6%)
Managed Funds net inflows	131	91	(40)	(30.6%)
FUM net inflows	692	419	(273)	(39.5%)
Key Statistics Annualised				
Platform Revenue / average FUA (bps)	56.5	49.3	(7.2)	(12.7%)
Underlying EBITDA / average FUA (bps)	29.0	26.0	(3.0)	(10.5%)
Platform Revenue / average number of accounts (\$)	1,406	1,461	55	3.9%
Member Accounts (eop, number)	58,012	65,688	7,676	13.2%
Financial Intermediaries (eop, number)	2,190	2,393	203	9.3%

\$M unless otherwise stated

eop - end of period

- Underlying EBITDA, NPAT, Operating Cashflow and EPS have been prepared to exclude non-recurring expenses for 1H 2019 and consistent with pro forma calculations for 1H 2018. EPS has been calculated based on the ordinary and performance shares held post completion of the IPO. Reconciliation provided in the 1H 2019 Results presentation.
- Expenses for 1H 2019 included Non-Recurring costs of \$1.1 million. Netwealth conducted a comprehensive review going back to the date of the granting of our Registrable Superannuation Entity (RSE) licence. This review was in relation to current and historical processes and undertaken with reference to changes in the Financial Services environment, including, but not limited to, evidence given in the hearings and findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). These reviews, which have been completed, identified client rectification costs and legal expenses of \$1.1 million, booked in 1H 2019 and payable during 2H 2019. The PCP non-recurring expenses were the IPO transaction costs.
- Client account pooled cash balance as at 31 Dec 2018 was \$1.6 billion. The cash administration fee earned in 1H 2019 was approximately \$0.6 million higher than the run-rate based on 31 Dec 2018 balance.

Royal Commission

Based on the recommendations in the final report of Royal Commission being adopted, we see the following potential outcomes for Netwealth:

- The phasing out of grandfathered commissions is expected to be a positive impetus for growth. The estimated potential industry-wide FUA subject to grandfathered commission was \$189 billion, at June 2018³. The removal of grandfathered commissions is likely to result in greater transitions of legacy business which will benefit Netwealth. Less than 3.5% of Netwealth's FUA is subject to grandfathered commission and the removal of grandfathered commission will not negatively impact Netwealth's net revenue.
- Netwealth is well placed to provide functionality to support the increased compliance and regulatory requirements for licensees and advisers.
- Netwealth's IT development costs continue to be expensed rather than capitalised and we see any new requirements as forming part of our normal ongoing development costs.
- Institutions are expected to continue to open their Approved Product Lists to SPPs to provide the product diversity that their tied agents require to meet the best interest duty for their clients. This will benefit SPPs, including Netwealth.
- The requirement for advisers to make express disclosure of non-independence in writing to all clients should also benefit Netwealth, as it has no aligned advisers.
- As a result of disposing of its advice businesses in 2017/18, Netwealth has no residual liabilities in respect of advice.
- The Royal Commission recommends that superannuation fund trustees should act in no other capacity. Subject to the form of amending legislation and regulatory approval, we intend to establish a wholly-owned subsidiary as the trustee of the Netwealth Superannuation Master Fund in place of Netwealth Investments Limited. The board of the new trustee is expected to include a number of new independent directors. Based on existing regulatory requirements, the new trustee company will require \$5 million of regulatory capital which will be funded by existing cash holdings.

Outlook

- Our new business pipeline continues to grow and will convert to inflows throughout 2019 and beyond. A significant number of advisers and intermediaries have recently selected Netwealth as their preferred platform against incumbent platforms and/or in-house administration. Transitions traditionally take varying periods to complete, with some commencing immediately while others being spread over a period of time.
- Subject to our estimated timing of a significant number of large new clients transitioning to Netwealth and our current forecast for organic growth from existing adviser clients, we remain confident that our full year FUA net inflows for FY2019 will be greater than FY2018.
- We expect further acceleration of advisers exiting larger institutions and selecting new platforms.
- Netwealth seeks to offer value by providing the best service and functionality, at a competitive price. Pricing competition and larger average account sizes is likely to result in some reduction in revenue basis points. Platform revenue per account is a key metric and increased in 1H2019. We continue to focus on growing average revenue earned per account and developing new revenue streams.
- Our platform functionality, quality service and pricing continue to be the most important factors in winning new clients against incumbents and other SPPs.
- In 2H 2019 we will continue to increase our investment in IT, sales, product and operations staff levels.
- We expect our EBITDA Margin % for FY2019 will remain at a similar level to FY2018.

3. Money Management; Ending grandfathering will alter the flow of \$ billions; Dexxr & analysis was based on AMP, BT/Westpac, ANZ/OnePath, CBA/CFS, IOOF and MLC/NAB FUM at June 2018 that related to FUM in-force as at June 2013. FOFA – Future of Financial advice

For further information please contact:

Matt Heine
Joint Managing Director
matt@netwealth.com.au

Michael Heine
Joint Managing Director
michael@netwealth.com.au

Grant Boyle
Chief Financial Officer
grant@netwealth.com.au

Netwealth Group Limited
shareholder@netwealth.com.au

ABN 84 620 145 404
PO Box 336 South Melbourne VIC 3205
Level 8/52 Collins Street, Melbourne VIC 3000
www.netwealth.com.au

About Netwealth

Netwealth is a financial services company listed on the Australian Stock Exchange (ASX: NWL). Netwealth was founded in 1999 and established to provide astute investors and wealth professionals with a better way to invest, protect and manage their current and future wealth. As a business, Netwealth seeks to enable, educate and inspire Australians to see wealth differently and to discover a brighter future.

Netwealth offers a range of innovative portfolio administration, superannuation, retirement, investment and managed account solutions to investors and non-institutional intermediaries including financial advisers, private client and high net worth firms.

Netwealth's award-winning platform is currently rated Australia's Number 1 Platform for overall functionality and overall satisfaction* providing wealth professionals with the technology required to efficiently manage and add value to their clients.

*Investment Trends; December 2017 Platform Competitive Analysis and Benchmarking Report & Investment Trends, May 2018 Planner technology report.