

1H2020 Financial result

ASX Release – 18 February 2020

1H2020 Underlying EBITDA up 22.8% to \$30.5 million

Netwealth Group Limited (Netwealth, ASX; NWL) is pleased to announce its half year results to 31 Dec 2019.

Financial results highlights (comparisons to 1H2019)

- Underlying EBITDA¹ of \$30.5 million a 22.8% increase over prior comparative period (PCP). Underlying EBITDA margin¹ of 52.0%.
- Underlying NPAT¹ of \$20.6 million a 20.6% increase over PCP. Underlying NPAT margin¹ of 35.0%.
- NPAT of \$20.5 million a 26.3% increase over PCP.
- Operating expenses of \$28.2 million for 1H2020 a 20.5% increase over PCP, reflecting previously advised strategic investment in IT infrastructure, people and software.
- Operating net cash flow pre-tax¹ of \$30.5 million and a 100% EBITDA cash conversion ratio for 1H2020. Netwealth remains debt free and continues to expense all of its internal IT development costs.
- On 18 Feb 2020 the board declared a fully franked interim dividend of 6.9 cents per share totalling \$16.4 million for 1H2020. The dividend is payable on 26 March 2020. The ex-dividend date is 25 February 2020.

Financials ⁽¹⁾	1H 2019 Actual	1H 2020 Actual	Change	% Change
Platform Revenue	47.1	57.3	10.3	21.8%
Other Income	1.1	1.3	0.2	14.5%
Total Income	48.2	58.7	10.4	21.7%
Employee Benefits Expenses	(16.0)	(19.9)	3.8	23.9%
Other Costs & Expenses	(7.4)	(8.3)	1.0	13.0%
Total Operating Expenses	(23.4)	(28.2)	4.8	20.5%
Underlying EBITDA	24.8	30.5	5.7	22.8%
Underlying EBITDA Margin %	51.5%	52.0%	0.5%	
Underlying NPAT	17.0	20.6	3.5	20.6%
Underlying NPAT margin %	35.4%	35.0%	(0.4%)	
NPAT	16.3	20.5	4.3	26.3%
NPAT margin %	33.7%	35.0%	1.3%	
Underlying Operating net cash flow pre tax	25.1	30.5	5.3	21.2%
Cash conversion ratio to EBITDA	101.3%	100.0%	(1.3%)	
EPS based on Underlying NPAT (cents)	7.0	8.4	1.4	20.1%

\$'M unless otherwise stated

1. Underlying EBITDA, EBITDA margin, NPAT, NPAT margin, Operating net cashflow and EPS prepared applying accounting standard AASB117 Leases. Accounts have been stated in accordance with the new accounting standard AASB 16 Leases adopted from 1 July 2019. A reconciliation is provided as Appendix 1. Underlying EPS has been calculated including all of the ordinary shares, performance shares and options on issue at the end of the period.

Business highlights (comparisons to 1H2019)

	1H 2019 Actual	1H 2020 Actual	Change	% Change
Platform Statistics				
Funds Under Administration				
FUA (eop)	18,988	28,511	9,523	50.2%
Fee Paying FUA %	62.3%	60.9%	(1.4%)	(2.2%)
FUA net inflows	1,936	4,355	2,419	124.9%
Funds Under Management				
Managed Account	2,114	4,368	2,254	106.7%
Managed Funds	1,025	1,382	357	34.8%
FUM (eop)	3,139	5,749	2,610	83.2%
Managed Account net inflows	328	1,503	1,175	357.8%
Managed Funds net inflows	91	202	111	122.3%
FUM net inflows	419	1,706	1,287	306.8%
Key Statistics Annualised				
Platform Revenue / average FUA (bps)	49.3	44.6	(4.7)	(9.6%)
Underlying EBITDA ⁽¹⁾ / average FUA (bps)	26.0	23.7	(2.3)	(8.9%)
Platform Revenue / average number of accounts (\$)	1,461	1,564	103	7.0%
Member Accounts (eop, number)	65,688	75,512	9,824	15.0%
Financial Intermediaries (eop, number)	2,393	2,711	318	13.3%

\$M unless otherwise stated

eop - end of period

- Funds Under Administration (FUA) of \$28.5 billion at 31 December 2019, an increase of \$9.5 billion (50.2% increase).
- FUA net inflows for 1H2020 of \$4.4 billion, an increase of \$2.4 billion (124.9% increase) compared to 1H2019 and \$2.0 billion (81.6% increase) compared to 2H2019.
- Funds Under Management (FUM) at 31 December 2019 of \$5.7 billion including Managed Account FUM at 31 December 2019 of \$4.4 billion.
- Average pool cash as a percentage of FUA of 8.4% for 1H2020, reduced to 7.0% at 31 December 2019 reflecting the increased flows into the Wrap Service and Managed Account which typically hold lower cash balances, in addition positive market movement which increased non-cash asset values.
- Member accounts increased by 9,824 (15.0% increase) to 75,512. Financial Intermediaries using the platform increased to 2,711, up 13.3%.
- Member account size has increased to \$376,000 (Wrap \$878,000, Super \$201,000) for December 2019, up from \$323,000 for June 2019.
- Annualised platform revenue per member account of \$1,564, an increase of \$103 (7.0% increase) reflecting continued diversification of revenue streams and utilisation of ancillary services.

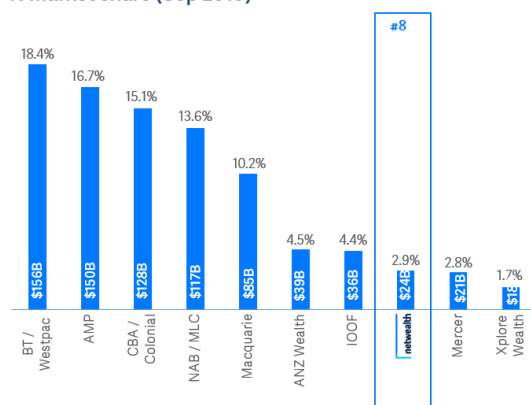
- Annualised platform revenue over average FUA of 44.6 bps, down 4.7 bps and down 2.4 bps compared to 2H2019 reflecting:
 - clients won in recent years have been onboarded at fee rates below those disclosed in our Product Disclosure Statements (PDS) and historical average fee rates;
 - clients have been progressively moving from back book to front book fee rates; and
 - the average account size increases.

Opportunity

Netwealth continues to be focused on its clients and delivering scalable and innovative functionality supported by superior customer service in an evolving and fragmented industry.

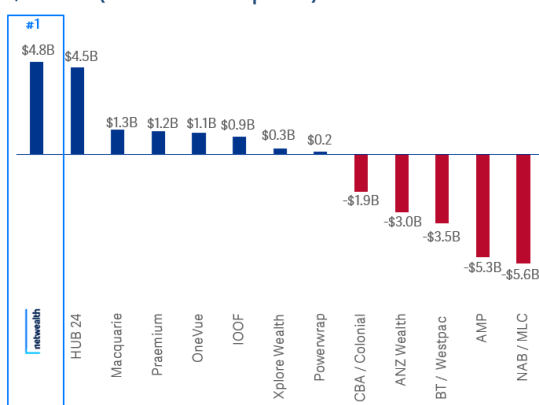
- Advisers are transitioning from institutionally aligned and owned licensees to privately owned licensees at an unprecedented rate. Privately owned licensees now account for 60% of advisers compared to 35% six years ago². Adviser Ratings have estimated \$900 billion of funds under advice will potentially be orphaned or be transferred to a new adviser in the next five years³.
- Netwealth is a leading beneficiary of the transition in the adviser landscape. In the latest Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2019), Netwealth improved its market position to 8th overall as market share increased to 2.9%. Netwealth recorded the highest industry rolling 12-month FUA net inflows for the sixth consecutive quarter recording FUA net inflows of \$4.8 billion for the 12 months to Sep 2019.

Platform providers by FUA market share¹
% market share (Sep 2019)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2019)

Platform provider net funds flows²
\$'Billions (12 months to Sep 2019)



Source: Strategic Insight: Master Trusts, Platforms & Wraps (Sep 2019)

- Advice delivery is changing as consumers demand different engagement and service options. Netwealth as a trusted technology provider is in a unique position to support and evolve business models, drive efficiency and client outcomes. Netwealth is leading the market in moving towards a user-pay model and building the platform to provide different product options. Netwealth will continue to develop and evolve a Software as a Service (SaaS) based revenue model in addition to expanding our range of funds.

2. Adviser Ratings; Adviser Musical Chairs Report - Quarter 4 2019

3. Adviser Ratings 2019 Financial Advice Landscape Report December 2019

- For the high net-worth and private wealth groups Netwealth offers a range of services that are not widely available in the market such as bonds, international trading with multi-currency trading and wholesale funds.
- In the Adviser Ratings 2019 Financial Advice Landscape Report December 2019 Netwealth ranked first for:
 - net promoter score;
 - adviser experience;
 - ongoing adviser support;
 - overall functionality; and
 - client experience.

Netwealth was recognised for its critical interface, application availability, client experience including ease of onboarding, image to the advisers 'clients' and its willingness to invest based on client feedback.

- In the Investment Trends, December 2019 Platform Competitive Analysis and Benchmarking Report Netwealth ranked first for overall platform functionality for the fifth year in a row. It also ranked first for reporting, transaction tools and decision support tools.
- Netwealth was successful in onboarding a record \$4.4 billion of FUA net inflows from existing and new licensees during the half year. The largest individual Licensee accounted for approximately 26% of FUA net inflows for 1H2020, the balance being well diversified.

Commentary and outlook

- With the end to all grandfathered commissions by 31 December 2020 estimated to represent approximately 34% of the advice industry's annual revenue⁴, Netwealth expects significant transition opportunities as advisers seek to provide their clients greater competitive pricing and functionality. Netwealth FUA in products with grandfathered commissions is less than 2% of our total FUA.
- Netwealth has accelerated its investment in technology and distribution teams to maintain its scalability and efficiency as growth accelerates. To ensure access to skilled IT personnel Netwealth has established a number of hybrid scrum teams co-located in Melbourne and Vietnam which increases its technology capability cost effectively (> 35% cost reduction per scrum team). The technology headcount at 30 June 2020 is expected to increase to 108.
- Netwealth has increased its distribution team across all states and has introduced strategic and key account managers. Further investment in distribution is expected for 2H2020 adding three additional roles, increasing the distribution team to 27.

4. Adviser Ratings 2019 Financial Advice Landscape Report December 2019 - IBISworld

- Netwealth is adding managed accounts available through an external Responsible Entity, increasing its ability to expand its distribution and capacity in the managed accounts market.
- As indicated above, new clients have been onboarded at fee rates below our current fee rates disclosed in our PDS and our back-book has been moving progressively to these lower fee rates.
- The following features are being introduced as part of a major product update:
 - new PDS fee rates aligned to the above pricing have been released today and will apply to new clients from 1 March 2020 and to existing clients from 1 January 2021. Existing clients will have the option to transition to the new fee rates from 1 March 2020;
 - negotiated fee rates continue to be available where scale and revenue opportunities are financially appropriate; and
 - new “premium” options are being introduced that provide greater investment flexibility and functionality for sophisticated and high net-worth clients.
- Subject to there being no material changes to economic conditions and financial markets, we forecast:
 - full year FUA net inflows of approximately \$9 billion (subject to timing of client transitions);
 - FY2020 revenue to be in the range \$120 to \$122 million; and
 - Underlying EBITDA to be in the range of \$61 to \$63 million.

About Netwealth

Netwealth was created with an entrepreneurial spirit to challenge the conventions of Australia's financial services. We are a technology company, a superannuation fund and an administration business. Above all we exist to inspire people to see wealth differently and discover a brighter future.

Founded in 1999, Netwealth is one of the fastest growing wealth management businesses in Australia.

We are rated No.1 by our clients for providing exceptional service and independent researchers continue to rate our technology as best in class*.

Our financial products are:

- Superannuation including accumulation and retirement income products;
- Investor directed portfolio services for self-managed super and non-super investments;
- Managed Accounts; and
- Managed Funds.

Netwealth's digital platform supports how our financial products are delivered to market. For instance, via the platform, financial intermediaries and clients can invest and manage a wide array of domestic and international products.

*Investment Trends; December 2019 Platform Competitive Analysis and Benchmarking Report & Investment Trends, April 2019 Planner Technology Report

The platform is built, developed and maintained by our technology team. It is continuously enhanced using feedback from financial intermediaries, clients and other users and receives wide industry recognition as having market-leading functionality.

Supporting our financial products and technology platform is a significant investment in our people and resources to administer support, risk and governance and our custodial services.

This document has been authorised for release by CFO and Company Secretary, Mr Grant Boyle.

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Appendix 1

- Set out in the table below is a reconciliation of underlying adjustments to the consolidated statement of profit or loss and other comprehensive income. The underlying adjustments relate to a one-off client rectification costs incurred in 1H2019 and on the basis of pre-transition to AASB 16 Leases. The Board and management monitor the underlying NPAT pre AASB 16 and this information is provided to enable comparison with prior corresponding period.

Reconciliation of underlying adjustments	1H2020 Actual	1H2019 Actual	Change	% Change
Net profit before tax	29.5	23.3	6.2	26.7%
Depreciation and amortisation	0.9	0.4	0.6	149.3%
Depreciation on right-of-use assets (post AASB 16)	0.6	0.0	0.6	100.0%
Interest on leases (post AASB 16)	0.0	0.0	0.0	100.0%
Rental expense (pre AASB 16)	(0.7)	0.0	(0.7)	(100.0%)
Client rectification costs and legal expenses	0.0	1.1	(1.1)	(100.0%)
Underlying EBITDA	30.5	24.8	5.7	22.8%
Underlying EBITDA margin	52.0%	51.5%	0.5%	
Income tax expense	(9.0)	(7.1)	(1.9)	(27.4%)
Depreciation and amortisation	(0.9)	(0.4)	(0.6)	(149.3%)
Net tax impact from leases (adoption of AASB 16)	0.0	0.0	0.0	100.0%
Tax impact from client rectification costs and legal expenses	0.0	(0.3)	0.3	100.0%
Underlying NPAT	20.6	17.0	3.5	20.6%
Underlying NPAT Margin	35.0%	35.4%	(0.4%)	

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