Diverger Limited

First-Half 2023
Results Presentation

ASX: DVR

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Divergers create positive change

We step outside our comfort zone to create more possibilities for our clients.

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Building a market leading service platform for Advice and Accounting firms

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FY23 1H Results & Full Year Outlook

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Diverger today - sustainable business model pursuing a defined growth strategy

Clear Strategy. **To become the leading service provider to advice and accounting firms**

- 3 growth pillars: build scale, expand services and transform through technology
- Solid progress on execution and ahead of plan on M&A targets
- Board & management remain committed to delivering to the FY25 growth targets

Consistent Growth. **Sustainable business model continuing to deliver in a more challenged economic environment**

- Net Revenue $15.68m, up 6% on pcp
- Substantial inflows into CARE portfolios of $474m, now managing $2.47bn of investor assets
- Substantial customer base of over 3,500 advice & accounting firms

Disciplined Execution. **Focus on improving shareholders returns over the medium term**

- Increased fully franked interim dividend to 2.0c in line with capital management policy
- Underlying EBITA $2.93m (down 13%), following investments to support growth and higher operating costs reflecting inflationary environment
- 2H skew to earnings, expected to be relatively flat for the full year recognising the uncertain economic conditions
- Continue to explore transformational opportunities where returns to shareholders are justified

Material progress against FY25 growth strategy

Areas to Win	Opportunity	Key achievements – FY23 1H
Leadership position in scale and capability	Improve operating leverage and capacity to invest	• CARE inflows $474m • TaxBanter brand returning to revenue growth post COVID-19 • Established a solid footprint in the fast growing self licensed advisor market, now with 160+ firms
Service expansion	Buy, build or partner to expand services beyond existing services	• Acquired new cyber and managed technology service Priority Networking (PNET), adding a new offer for existing firms • Improving contribution from equity investment in advice practice • Steady growth in back-office services through offshoring partnership • First advice firm onboarded to Knowledge Shop education platform
Customer experience	Invest in technology and services infrastructure to enhance customer experience	• HUBConnect analytics platform in production and providing automated reporting to compliance committees • Launched new version of GPS client engagement software to pilot firms

M&A delivers towards FY25 growth targets

Transactions accretive to underlying EBITA in year 1

	KEY BENEFITS
mcgregor WEALTH MANAGEMENT	• 35% shareholding in financial advice practice, to support growth • Growing EBITA contribution and return on invested capital from a committed 3yr growth strategy
PRIORITY NETWORKING We get IT right the first time	• Introduces a new service for existing Diverger clients - cyber & technology support • Material acceleration in Diverger's capability towards technology services • Augments existing HUBConnect and technology partnerships
AFSL Compliance	• Establishes a strong footprint in the self-licensed advice market – fastest growing market segment • Diverger market share of that segment materially increased from 5 to 166 firms • Dedicated capability to grow that market segment and cross-sell other Diverger services

Group Profit Analysis

Segment Result	1H23 ($m)	1H22 ($m)	Increase/ (decrease) %
Wealth Solutions	8.16	7.52	8
Accounting Solutions	7.50	7.26	3
Other	0.02	-	
Net Revenue	**15.68**	**14.78**	**6**
Wealth Solutions	1.81	1.86	(3)
Accounting Solutions	2.68	2.85	(6)
Divisional - Underlying Profit	**4.49**	**4.71**	**(5)**
Corporate Overheads	(1.56)	(1.37)	(15)
Underlying Profit	**2.93**	**3.34**	**(13)**
Normalisations	(0.43)	(0.14)	
Statutory EBITA	**2.50**	**3.20**	**(22)**

Net Revenue growth offset by investment in operations and higher operating costs

REVENUE

Continued growth in Net Revenue, at a slower rate driven by:

- Market volatility on CARE FUM
- Lower membership growth, reflecting accounting firm higher cost focus and some business development team changes
- Some adviser attrition following final FASEA education deadlines

UNDERLYING PROFIT

Result down on pcp. Factors impacting earnings relative to prior period

- Planned investment in capability to support achievement of FY25 targets, including additional BDM staff & corporate support including investor relations, HR and project management
- Re-instatement of pre COVID-19 spend on adviser conferences, events & travel
- Higher employment costs reflecting the low unemployment environment
- Non-continuation of other one-off benefits in prior period

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Wealth Solutions

	1H23 ($m)	1H22 ($m)	Increase / (decrease) %
Net AR revenue (full advisers)	4.03	4.04	-
Self-Licensed (SL) subscription fees	0.12	0.01	>100
Limited Advisers (LAR) subscription fees	0.37	0.54	(32)
CARE	3.19	2.81	13
Share of profit from Associates	0.07	-	100
Other	0.38	0.12	>100
Net Revenue	**8.16**	**7.52**	**8**
Underlying Profit	**1.81**	**1.86**	**(3)**

Broadening revenue mix reflecting FY25 strategy, offset by more difficult market conditions

LICENSING

- Net AR revenue flat following attrition post the final FASEA education deadlines, down 6% to 145 firms, offset by improving average revenue per firm, up 5% to $55k
- Self-licensed fees reflect acquisition of AFSL Compliance 1 Dec 22 with 160+ firms
- Limited Adviser fees down reflecting ongoing departure of accountants caused by FASEA education deadlines

CARE

- Continued growth despite volatile markets, with Inflows of $474m and FUM up 8% to $2.47bn on pcp

EQUITY INVESTMENT

- Completed 35% investment into McGregor Wealth Management (MWM) 1 July 22. Some initial delays, now with improving contribution from that investment

Underlying Profit

- Re-instatement of pre COVID-19 spend on face-to-face conferences, events, travel & higher staff costs

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Accounting Solutions

	1H23 ($m)	1H22 ($m)	Increase / (decrease) %
Membership	3.22	3.06	5
Training	4.25	4.15	3
Other	0.03	0.05	
Net Revenue	**7.50**	**7.26**	**3**
Underlying Profit	**2.68**	**2.85**	**(6)**

MEMBERSHIP

- Continued growth with 1,352 subscribing member firms, up 4% on pcp
- Slower rate of growth than pcp following transition to new BDM team and some impact from accountants responding to a rising cost environment

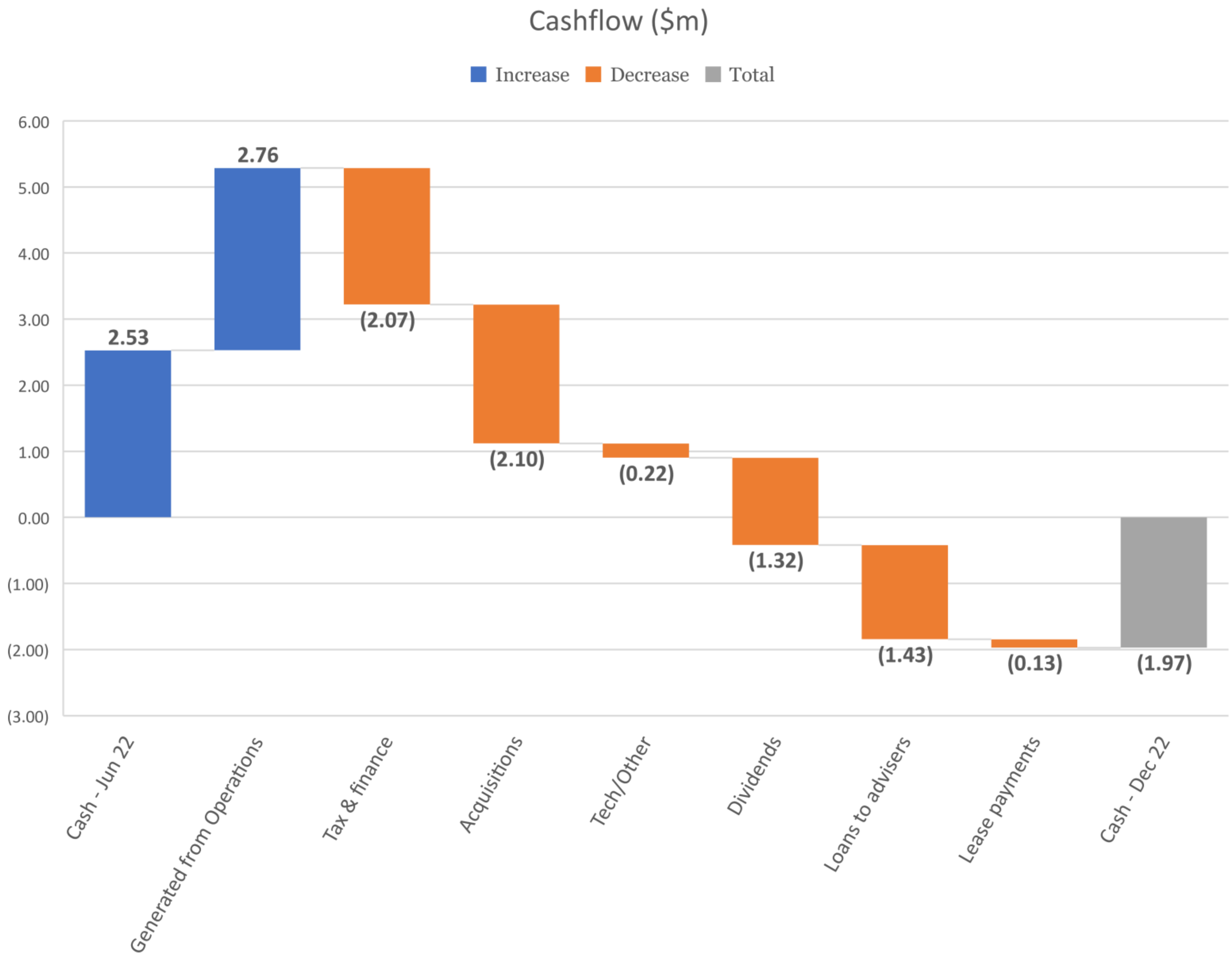
TRAINING

- Improving momentum following period of COVID-19 disruption, with continued commitment from existing inhouse clients and new firms joining training calendar

UNDERLYING PROFIT

- Underlying Profit down on pcp reflective of investments in the current period in both BDM's, technical staff and higher staff costs generally
- Expect EBITA margin to return to historical 38-40% run rate with anticipated revenue growth

Cashflow



KEY INFLUENCING FACTORS

- Strong cash alignment to earnings with most income streams received by cash in advance of delivery of services
- Statutory EBITA 1H23, $2.50m vs Cash generated from operations $2.76m
- Debt facility able to fund M&A in line with FY25 targets
- Short-term finance to advice firms on commercial terms

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Full Year Outlook

Expect a 2nd half skew to earnings and relatively flat for the full year, recognising the uncertain economic conditions

Continued revenue growth from core services

- Increasing membership base improves consistent revenue growth
- Recovery in training revenue growth expected to continue
- Improving growth in CARE FUM with some market recovery and continued FUM inflows

Cost base stabilised

- Wages and recruitment set for the year
- Corporate cost stable

Growing contribution from acquisitions

- AFSL Compliance acquired 1 Dec 22, to contribute full 6 months earnings in 2H - circa $200k
- PNET acquired effective 1 Jan 23 to contribute full 6 months in 2H - circa $200k+
- MWM equity investment with improving contribution in 2H relative to 1H

Vision and Growth Strategy

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Attractive growth market for services to professional firms

Circa 16,000 advice / accounting firms, $20bn revenue

Strong underlying firm growth

Reducing impact of regulatory change

Ageing demographic and economic environment driving demand

Reduction in advisers & tight labour market limiting supply of professionals

Capacity constrained

Firms require critical services to operate

Majority of advice & accounting firms are too small to internalise all required capabilities

High demand for services

Growth and capacity constraints creating demand for services – Diverger's market opportunity

Our growth strategy is focused on leveraging this demand for services

Increase scale and capability

- Maintain growth momentum in four core services (now five)
- Pursue accelerator acquisitions that extend scale / capabilities

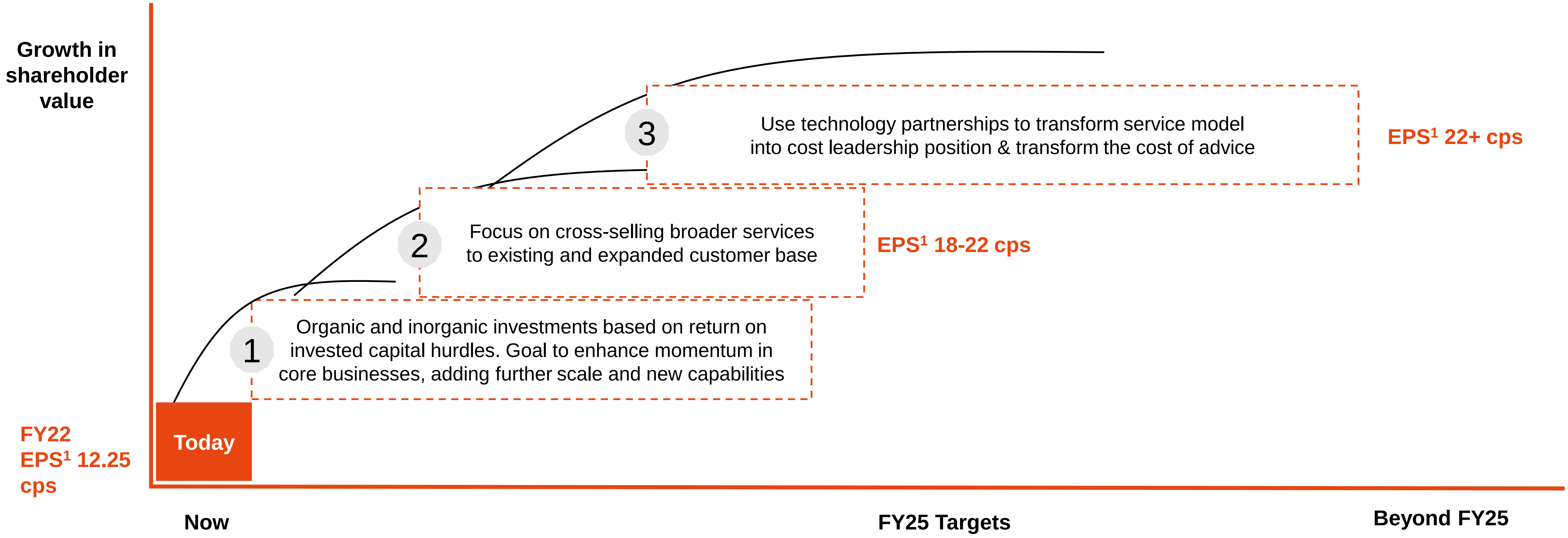
Expand services per customer

- Invest into advice practices
- Grow back-office services
- Extend membership & training to advice firms
- Extend managed portfolio services
- Grow cyber and technology services

Transform customer experience

- Continue to build out customer analytics
- Expand service automation platform
- Progress customer experience initiatives across all businesses

Targeting growing value for shareholders through to FY25 and onward



1. Adjusted EPS (as per AGM presentation), based on NPATA, which is statutory Net Profit After Tax, adjusted for non-cash amortisation, impairment and fair value adjustments

Committed to achieve FY25 targets

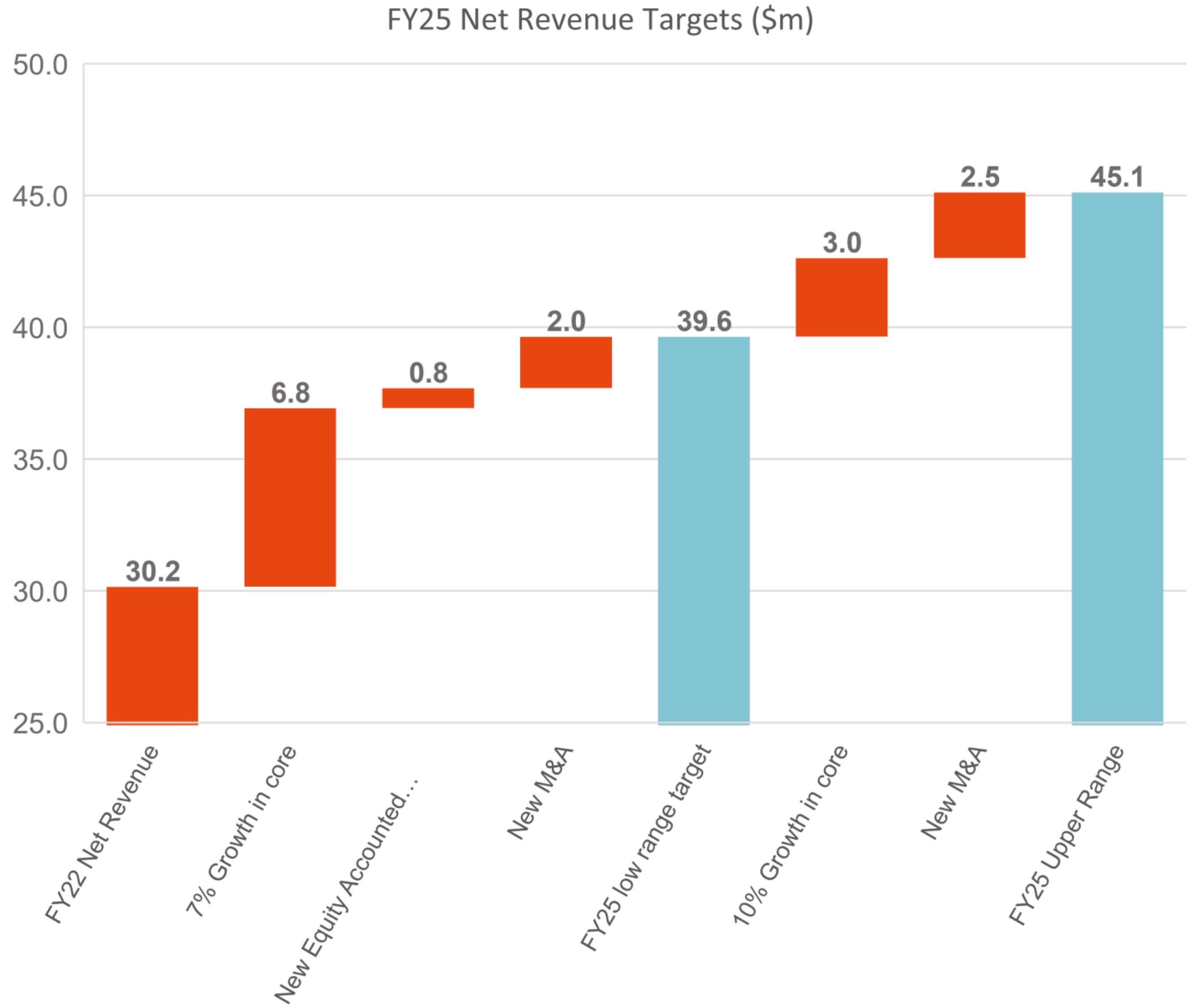
$m	FY22	FY25 Targets
Net Revenue (NR)	$30.15m	$40m - $45m (10% - 13% CAGR)
Underlying EBITA margin (%)	23%	24% - 28%
Underlying EBITA[1]	$7.06m	$10.5m - $12.5m (15% - 21% CAGR)
Adjusted EPS (NPATA/SOI)[2]	12.25 cps	18 -22 cps

Board approved Capital Management Policy

- Strategy to balance growth and shareholder returns
- Investments into operations funded from free cashflow and debt at accretive ROIC (Return on Invested Capital)
- NPATA used to remove the distortion of amortisation of investments with strong alignment to FCF
- **Stable Dividend payout ratio:** 40% - 60% of NPATA[2]
- **Conservative capital structure**: target range of 1.0 - 1.5 times Net debt / EBITA
- Board to retain flexibility outside of these guidelines based on value accretive opportunities

1. Underlying EBITA is Earnings Before Interest, Tax and Amortisation adjusted for non-operation items such as M&A costs, AASB16 adjustments and non-cash fair value/impairment adjustments and a gross up of equity accounted investments to a EBITA equivalent to enable a comparison on a like for like basis with consolidated investments.
2. NPATA is statutory Net Profit After Tax, adjusted for non-cash amortisation, impairment and fair value adjustments. Adjusted EPS is NPATA/shares on issue.

Material progress against FY25 M&A targets



ORGANIC GROWTH IN THE CORE:

- Revenue growth +$0.9m v FY25 upper target of +$14.9m
- Marginally behind low range target run rate (5% v 7%)
- 2H expected to deliver improving momentum

M&A DRIVEN GROWTH:

- 3 completed deals – MWM, PNET, AFSL Compliance
- Acquired Revenue $4.1m v FY25 upper target of $5.3m
- Materially ahead of run rate and low range M&A already exceeded
- Negotiations continue with an active M&A pipeline

Management remains committed to achieving FY25 growth targets. Continue to explore transformational opportunities where returns to shareholders are justified

Corporate Information

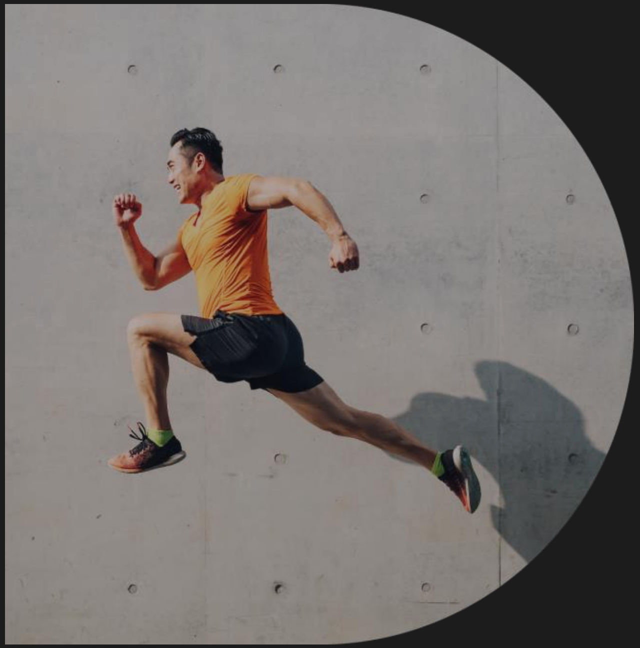
Investor Returns	12 mths to 31 Dec 22	FY22	Change
Net Revenue	$31.05m	$30.15m	Up 3%
Underlying Profit	$6.65m	$7.06m	Down 6%
Statutory EBITA	$5.86m	$6.56m	Down 11%
EPS (Basic)	8.50 cents	9.47 cents	Down 11%
EV / Statutory EBITA (12 month trailing)	6.6 times	4.3 times	Up 55%
Dividends	5.5 cents	5 cents	Up 10% in line with Capital Management Policy
Dividend Yield	5.6% fully franked	6.2% fully franked	Down 9%
Net (Debt)/Cash	($1.97m)	$2.53m	Down $4.5m

Market (as at 31 Dec 2022)

Shares on Issue	$37.67m
Share Price	$0.98
Market Capitalisation	$36.73m

Substantial Shareholders

HUB24	31.5%
Greg Hayes and related entities	8.6%
Peter Hollick and related entities	5.3%
Pie Funds Management	6.2%



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