ABN 23 629 193 764 | PEXA Group Limited

ASX ANNOUNCEMENT

ASX:PXA

Friday, 25 August 2023

PEXA delivers solid 2023 full year results

Melbourne, Australia – PEXA Group Limited (**PEXA** or the **Group**), a world-leading digital property exchange platform and property insight solutions business, announced its full-year results for the 12 months ended 30 June 2023 (FY23). Accompanying commentary from Group Managing Director and Chief Executive Officer Glenn King and Chief Financial and Growth Officer Scott Butterworth is provided below.

Group Managing Director and Chief Executive Officer, Glenn King

Good morning. I'm Glenn King, PEXA's Group Managing Director and Chief Executive Officer, and joining me this morning is our Chief Financial and Growth Officer, Scott Butterworth.

We are pleased to welcome you to PEXA's results for the 12 months ended 30 June 2023.

Before I start please note Slide 2 outlines the important notice disclaimer information.

Slide 3:

In the spirit of reconciliation, PEXA acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

We at PEXA accept the invitation to walk with First Nations Peoples, to a better future for us all, and invite you to join the movement.

Slide 4:

Moving to slide 4. This is the agenda for this morning.

We will cover PEXA's FY23 business review, financial performance and provide some commentary on the company's outlook.

At the end, we'll be happy to take any questions.

Slide 5:

Before we go into further detail of our FY23 performance, I thought it was important to take you through some important context about the PEXA Group.

We began over a decade ago with a key mission to solve a customer imperative. First, build a safe national reliable electronic platform by which the purchase, sale and refinancing of property could be facilitated smoothly, reliably and improving the overall customer experience.

A Government COAG sponsored initiative, co-designed by industry, government and customers to provide what is now a world leading property Exchange platform that has set the standard – not just in the property market, but also other registry like services.

Second phase. Build out our PEXA Exchange platform to provide comprehensive coverage across most of Australia. From 2021, we successfully processed millions of property transactions through the PEXA Exchange platform. During this period, we also successfully listed on the Australian Stock Exchange; we began our expansion of our Property Exchange platform in the UK and commenced our extension into additional property digital product and service adjacencies.

And now, as a PEXA Group we are now into our third and current phase - where we have grown our PEXA Exchange platform coverage to 88% of the Australian market, extended and scaled up our property digital adjacent services which includes leading digital businesses, Value Australia and .id.

Rapidly expanding our UK platform into a business with UK lenders on our platform, plus transitioning Optima Legal to the PEXA UK Group and exploring opportunities with additional UK Financial Institutions. And this progress has contributed to our solid FY23 results.

Slide 6:

Moving to Slide 6:

There are three key messages for which I would like you to take away from today's PEXA Group results and presentation.

1. **The PEXA Exchange continues to deliver.**
    a. It is a robust, resilient property platform performance based on world class digital infrastructure.
    b. Australian market share increasing to 88% in FY23.
    c. Disciplined cost management with margin improvement from **52.2% in first half FY23 to 55.1% in second half FY23**

2. **Growth businesses are delivering and building to scale.**
    a. PEXA Go platform now live in the UK market and processing transactions.
    b. The rollout of the PEXA Go platform is favourable to where we were in our Australian roll out.
    c. Digital growth businesses are innovative, AI-oriented, unique and beginning to deliver revenue and scale.
    d. We have a sizeable uptake with a path for sustainable growth.

3. **Disciplined approach to cost efficiency and capital allocation.**
   a. Efficiencies delivered in the year.
   b. Focussed on continuous improvements extending into FY24 to deliver on margin expectations.
   c. Strong operating cashflow generation.
   d. Capital continually deployed in a disciplined fashion to support strategic growth.

PEXA is powering the property markets in Australia and now underway as a business in the UK.

Slide 7:

Moving to slide 7 and turning to the opportunities that are available to PEXA:

We have multiple, diverse revenue streams across three core areas – each with a significant total addressable market.

PEXA Exchange our world-leading digital property registration and settlement platform in Australia has a current revenue of $263 million against a total addressable market of $300 million.

PEXA Digital Growth seeks to develop property insight solutions that enrich our customer proposition. The current revenue is $12 million – from next to nothing in FY22 – against a total addressable market of $500 million. We now have leading digital property businesses, tech and brands, such as Value Australia, .id and our recently acquired Land Insights. We are excited about the business growth opportunity.

PEXA International seeks to leverage our unique IP to expand into major Torrens Title markets, starting in the UK where our business is now operational through both our PEXA Go platform combined with Optima Legal's distribution potential.

Our current revenue is $9 million against a total addressable market of $750 million in similar major Torrens Title markets. Like Digital Growth, we are investing for growth and have a customer presence through the PEXA and Optima offerings in the UK.

We have a clear and consistent strategy to execute and unlock these opportunities.

Slide 8:

Moving to Slide 8:

Our strategy is anchored in our purpose "**Connecting People to Place"** which frames how we work and is underpinned by our values. A purpose that is values-based for our customers, our people, community, and our shareholders. A purpose that motivates our people.

Our strategy is simple. Deliver sustainable business growth by:

- Enhancing the PEXA Exchange;
- Extending further into the property ecosystem and our customers through product adjacencies;
- Expanding our core capability into jurisdictions with similar customer opportunities to solve; and
- Evolving our operating model to underpin a productive and engaged professional team, built on our values of Better Together, Making it Happen and Count, and Innovate for Good.

Over the next few slides, I will touch on some key overview points about our business and strategy.

Slide 9:

Turning to Slide 9, and starting with the leading PEXA Exchange platform. The Exchange continues to demonstrate resilience and robustness despite market headwinds and cemented its place as important national digital infrastructure asset with 88% market transactions (up 2% on last year) with strong growth in ACT and Qld, a customer score of +81 and 3.7 million transactions. We are also underway with Tasmania, Northern Territory and further transaction growth in WA.

Slide 10:

Moving to Slide 10, the strong capabilities we have built in the Exchange has enabled us to appropriately Extend into adjacent property products and service solutions through our Digital Growth business, broad services that have delivered $12m of revenue – 9 x YoY.

And our guidance is that Digital Growth will break even at the Operating EBITDA level for the month of June 2024.

Importantly the scaling of our Emerging Digital Businesses provide basis for further growth in Australia and the UK.

Let me take you through a few points on the UK as shown on Slide 11.

Slide 11:

The UK Business is building, scaling and operational. We have achieved this based on the Australian PEXA Exchange learnings. We have built, and had approved, a new payment system integrated into the Bank of England – PEXA Pay.

This payment system specifically supports property settlements in this market. We have nine banks tested on this payment system. Our PEXA Go platform, which is our settlements platform, has onboarded two Financial Institutions which are now successfully transacting remortgages.

It's important to distinguish there are differences between the Australian and UK markets.

So, we acquired Optima Legal which supports our ability to bring remo volumes onto our PEXA Go platform, understand how bulk conveyancers operate and refine our solution to better support these customers.

In terms of building scale and momentum in our UK business, I can also advise we are in discussions with some of the UK's largest lenders - some of which are already on the Optima Legal platform such as Virgin Money and Nottingham Building Society, and some of which are not such as Metro Bank. We are not currently at liberty to disclose other lenders currently but discussions are underway.

Slide 12:

Moving to Slide 12 to illustrate the positive comparable position of the UK rollout when compared to Australia. While there are differences, we are trending well on our UK deployment relative to the equivalent time period when we were rolling out in Australia. And a few examples to call out. We have:

- Developed a PEXA Go platform;
- Worked through the market dynamics and identified clear customer and regulatory imperatives for our PEXA platform;
- Built scale and distribution potential through our UK acquisition; and
- Managed to our financials and plan to deliver.

We are pleased with our progress and the momentum we have underway.

Slide 13:

Now turning slide 13 and briefly noting the FY23 market environment.

As flagged at the half year results this year the Australian property market entered a challenging phase due to the Reserve Bank's round of interest rate rises, with house prices and transaction volumes receding from the highs in FY22. This was partially offset by an increase refinancing activity, which yields lower fees and margins, as reflected in Exchange performance.

In the UK, the housing market also saw a slowdown in prices and remortgaging activity.

Slide 14:

And as illustrated on slide 14 PEXA proactively responded to the market conditions whilst building future value. Part of our response included management actions targeting usage, productivity and pricing which resulted in a positive $24 million impact. At the same time, we continued to build future value through growth investments which resulted in an $19 million impact on EBITDA. Turning to a high-level segment view of our performance.

Slide 15:

This Slide shows despite slowing markets, we have achieved a solid and credible result.

Total group business revenue rose 1% to $283 million, with growth from our emerging Digital Growth and International businesses offsetting lower PEXA Exchange revenues.

Exchange revenues decreased 6% to $263 million due to challenging market conditions, however, and importantly**, second half margins improved from 52.2%to 55.1%.**

PEXA Digital Growth delivered business revenue of $12 million –a nine-fold increase year on year.

PEXA International progressed well with the acquisition of Optima Legal in the UK delivering initial business revenues of $9 million.

Turning to our business review for FY23.

Slide 16:

We are pleased with the considerable momentum and progress we have made.

Some call outs in FY23 compared to the previous year.

PEXA Exchange has:

- Achieved an average market share of 88%, up 2 percentage points; and a customer score of +81.

PEXA Digital Growth has:

- Commenced preparation for commercialisation of the game changing Value Australia service with MOUS in place.

PEXA International

The UK rollout is progressing well, with the Group's remortgage offering, PEXA Go, successfully launched in late 2022.

Lenders are already live and the Group is progressing with additional institutions, some of which are already on the Optima Legal platform, demonstrating momentum prior to entering the sale-and-purchase market in FY25.

The acquisition of Optima Legal in late 2022 is allowing PEXA to progress its growth plans by providing us with immediate scale, presence and an established customer distribution network, representing an ordinary market share of approximately 20% of the UK remortgage market.

In addition to the UK, we are also exploring other international markets.

Slide 17:

As shown on Slide 17, none of this success would be possible without our people, customers and the value we are providing to the communities in which we represent… and you can see the strength of PEXA through the highlights on this slide. For example, a highly engaged team as represented by our 77% engagement score and recognised through numerous industry awards.

Slide 18:

I will now hand to Scott to talk through our FY23 financial performance in more detail.

As you will all be aware, Scott who has worked as a CFO in major listed businesses in both Australia and the UK, was appointed to the role of Chief Financial and Growth Officer in May and assumed this role from 1 July.

He's highly credentialed finance executive having been with the PEXA Group since November 2021 and has been instrumental in delivering our Group strategy. He has added significant bench strength to the organisation. Over to you Scott.

Chief Financial and Growth Officer, Scott Butterworth

Slide 19:

Thank you, Glenn. And thanks also to those who have joined the call today.

Turning first to the performance of the overall PEXA Group as outlined on Slide 19, business revenue for the Group increased by 1%, or $3.6m over FY22. This was achieved despite a net $15m decline in Exchange revenue, with our emerging Digital Growth and International businesses contributing $19m of new business revenue to the Group.

Operating expenses increased by $38m over the period. To break this down a little, $22m of this increase is associated with the businesses we bought in the period – .id, Optima and Value Australia. Around $12m was driven by investing in the capabilities of our emerging businesses as they began to scale over the period. Additional cost growth was primarily driven by capitalisation effects and a range of smaller cost items and inflation. Pleasingly, our efficiency and productivity efforts generated in-year benefits equivalent to 3% of FY22's cost base.

These movements have led to the Group's operating EBITDA margin moving from 48% in FY22 to 35% in FY23. As previously outlined by Glenn, this represents the effect of investing in future value creation by the Group, partially offset by strong management of key levers, whilst digesting effects of macroeconomic uncertainty in our major markets.

Slide 20:

Before turning to the performance of our individual businesses, I want to address three items below the operating EBITDA line as set out on Slide 20.

Firstly, you will see that we have set out the specified items for FY22 and FY23. These are items that are sufficiently unusual and / or non-recurring in nature that they should be separately called out. A full delineation of those items for FY23 and FY22 is contained in the Appendices on Slide 40-41.

However, as you can see, these items declined by $7.5m over the year. This was primarily due to the non-recurrence of FY22's IPO costs, partly offset by a range of M&A and related strategic costs incurred during FY23. Secondly, depreciation and amortisation increased by $8.5m, due to both our organic investment in our exchange and emerging businesses, as well as increases associated with businesses we bought in the period.

Lastly, you can see a very large jump in our effective tax rate, which, together with the reduction in EBITDA, explains much of the decline in NPATA. This was driven by the need to write off certain non-cash R&D tax credits, following Link's in-specie distribution of its PEXA shares.

Slides 21-23:

I will turn now to the performance of each of our lines of business, starting with Exchange revenues, costs and capex on slides 21-23.

As stated previously, Exchange revenues declined by $15m or 6% over the year. This was driven by a combination of declining market volumes, particularly during the second half, and an increase in the mix of lower revenue refi products. These market movements had the effect of reducing our revenues by the equivalent of $36m. To partially offset them, by the equivalent of approximately $20m, we benefited from re-pricing decisions made at the beginning of the year, as well as encouraging further Exchange usage in the ACT and Queensland.

We managed our cost base effectively, with a particular emphasis on managing our labour mix and driving efficiencies in our non-labour costs.

As a result, despite the decline in revenues, we held the reduction in year-on-year margins to 1% and remained within our guidance range of 50-55%. Margins also improved sequentially in the second half.

We increased our investment in the Exchange by $11m during the year. These investments resulted in improved resilience and cyber security, over 250 customer innovations, additional customer APIs, and the fulfilment of regulatory-related requirements.

Slides 24-25:

Slides 24 and 25 deal with the progress made by our Digital Growth business over the past year. Again, I'll summarise the key revenue, expense and capex themes covered by these slides.

Revenues for Digital Growth increased by $10.3m, or 9x, over the period, mostly in the second half. Much of this was driven by the acquisition of ID, which gave us nine months of revenue during the year. However, it is pleasing that we have seen an acceleration of ID's revenue trajectory under PEXA's ownership, as the business takes advantage of the distribution and other resources that we can provide. Outside of .id, we have also had good initial traction with our suite of organically developed data and digital solutions, with their revenue increasing by 2.6x relative to FY22.

Costs did increase in this business over the year, reflecting about $8m of costs added through acquisitions, and additional costs representing investment in the capability of the business as it starts to grow. To partly offset this cost growth, we generated efficiencies equivalent to 17% of FY22's costs; this helped to improve operating margins by nearly 390 ppt over the year as the business started to scale.

The increase in specified items for the period reflects the impact of restructuring activity, and transaction and integration costs associated with investments and acquisitions made during the year.

Capex was largely flat over the period. However, the mix of capital expenditure did change over the year, as we ramped down development for some of our existing organic products, commenced work on new products, and started work on commercialising Value Australia.

Slides 26-27:

I turn now to the revenue, expense and capex performance of our International business as outlined on Slides 26 and 27. With the acquisition of Optima Legal, we have now started to generate revenue in this business for the first time.

However, Optima's revenue performed at a lower rate than typical for the business. This was for two reasons.

Firstly, there was a marked post-January slow-down in overall market remortgage activity as banks and consumers digested the effects of the Bank of England's changes to monetary policy.

Secondly, as widely noted at the time, Capita plc suffered from a range of technology-related issues around the end of the third fiscal quarter. As a former member of the Capita group still consuming Capita-related services, Optima was also impacted by these issues.

The combined revenue effect of these issues was around $5-6m in the period, noting that we have lodged a claim for the Capita technology-related issues with our insurers.

Operating costs associated with our International activities increased by $22m over the period. Around $14m of this cost increase was associated with Optima Legal. The remaining cost uplift was driven by the spend on resources required to further build out our international PEXA Go platform, as well as undertaking business development and other related sales activities.

Specified items increased by $8m over the year. These mainly related to the costs associated with acquiring and integrating Optima Legal, and the associated strategic positioning activities that we have undertaken.

Capex increased by $6m over the year, largely reflecting increased expenditure on PEXA Go.

Slide 28:

The cash effects of the Group's performance are set out on Slide 28.

Pleasingly, the Group's operating cashflow generation was only $6m lower than in FY22, despite the $27m reduction in cash-adjusted EBITDA over the period. This was due to the favourable impact of net working capital movements, as the impact of certain pre-paid IPO costs incurred in FY22 were not repeated in FY23.

Reflecting the investments noted earlier, capex consumed about $67m of our cashflows, up by $17m relative to the previous year; much of this was for the Exchange and for International. We spent a further $52m on investments, including $24.3m for Optima Legal, $17.6m for ID and $7.3m for Value Australia.

Slide 29:

As described in Slide 29, notwithstanding the cash consumption over the year, the Group's balance sheet remains on a sound footing. Debt metrics remain within appropriate levels, and we have about $35m in undrawn facilities. Net finance costs remain manageable, with the effect of increasing loan interest rates being partially mitigated by interest on source and other cash account balances.

Slide 30:

Having been involved in much of the Group's development over the past two years, one of my highest priorities as incoming CFGO is to ensure we have a strong and disciplined approach to managing our shareholders' capital.

As set out on Slide 30, Glenn and I are highly committed to ensuring that the Group's resources are invested for long-term value creation. We have a clear framework for managing the allocation of capital to appropriate opportunities across the Group, and for reporting on the outcomes of those allocations.

At present, and as suggested by the growth expectations built into our market trading multiples, we believe that applying this framework suggests that disciplined investment in our new business activities will create long-term value for the Group. Of course, if this were no longer to be the case, we would take appropriate actions to ensure the efficient deployment of capital on behalf of our shareholders.

Slide 31:

In closing, the Group has turned in a solid result for the year. We produced a strong margin outcome for the Exchange, despite falling revenues; our PDG and International businesses are beginning to scale, and we created good operating cashflows.

I'll now handover to Glenn to provide some closing comments and perspectives on our outlook.

Group Managing Director and Chief Executive Officer, Glenn King

Slide 32:

Thank you, Scott.

I will provide some thoughts on the outlook and where our priorities lie for the year ahead.

To support Scott's comments, we are committed to maturing and scaling our business through a clear set of productivity enhancement levers. We have scaled our business rapidly and as our operating environment remains uncertain, we will prudently review our expense base to ensure we remain efficient and continue to ensure we remain easy for our customers to deal with.

There are several things we have been progressing already and this has delivered efficiencies this year.

We will be maintaining this momentum as we head into FY24. These initiatives will cover our purchasing scale, our increasing use of technology, such as AI, and different initiatives that support productivity. I will now outline our focus priorities for FY24.

Slide 33:

Slide 33 shows the key strategic initiatives under each of our pillars of enhance, extend and expand. For example:

Enhance the PEXA Exchange to be in a competitive position; growing transaction coverage (including ongoing work to enter into Tasmania as planned in FY25; maintaining critical resilience and maturing our service proposition through accelerated API connectivity all the whilst ensuring regulatory compliance.

Extend our reach by deepening our services and distribution across key customer segments in Australia. This includes commercialisation of Value Australia and building our digital business scale.

Expand internationally through continued integration of PEXA and Optima Legal; seek to sign up Financial Institutions by converting Optima Legal remortgage flow to PEXA and build on the work of our PEXA Go platform in purchase and sale. We will continue to explore other Torrens title markets. We will deliver these initiatives through disciplined execution, productivity enhancements, secure and reliable services; whilst delivering on our customer, shareholder and people expectations.

Slide 34:

Notwithstanding the ongoing challenges in property markets, we expect the PEXA Exchange to continue its resilient performance, delivering strong cashflow and operating EBITDA margins in a consistent 50-55% range through FY24.

We expect our Digital Growth business to be Operating EBITDA break-even for the month of June 2024. We will also manage our investment in our emerging businesses – Digital Growth and International – to a combined $70 - $80m which remains broadly in line with our FY23 results.

As we continue to build out our range of business units, we are increasingly focused on the Group Margin. The Group Margin currently sits at 35% and we expect this will be a floor for our performance in FY24.

Slide 35:

To conclude and turning to Slide 35 we are delivering on our promise. These results demonstrate we're doing exactly what we said we would do – we are in a phase of investing for future growth. We're using the expertise and experience built up through the development of the world's first digital property exchange to build new adjacent revenue streams. It shows the resilience of our business model–- built on the consistent high-margin performance of the Exchange and growth from new revenue streams.

To close out, I would like to leave you these key takeouts:

1) The PEXA Exchange continues to deliver and has demonstrated its resilience in the face of challenging market conditions;
2) Our growth businesses are delivering and beginning to scale both in Australia and the UK; and
3) We are focussed on executing against our strategy with a disciplined approach to cost efficiency and capital allocation.

Thank you for your attention, everyone, and we would be happy to take questions.

-Ends-

This release was authorised by the Group Managing Director & Chief Executive Officer

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