

# Annual Results June 2018

**FEI Group Limited**



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# FEI Group Limited

## Business Update

FE Investments Group Ltd (FEI) is a specialist financial institution offering deposit taking and SME lending in New Zealand and Australia.



**\$65m+**  
Total Assets

**28%**  
Total Asset Growth

**S&P Global**  
Credit rating of B-  
(March 2018)










FY18 results have been impacted by one off costs which include;

- » Strong loan growth of 28% now totalling \$50m driven mainly by Vendor financing
- » Revenue growth of 80% to \$12.3m
- » Listed on ASX via merger on 6th June 2017 via a Reverse Take Over (RTO) of Wolfstrike Group Limited (WSG)
- » RTO transaction costs being realised \$13.7m
- » Amortisation impacts on transaction goodwill (\$11.7m)
- » Revenue recognition reclassification of finance leases which increased the discount rate. The benefit on future revenue will accrue over the contractual loan period (cumulative benefit of approximately \$1.8m)
- » FEI aiming to reduce property loans from 28% to 15% by September 18, enabling significant re-deployment of capital to SME and Vendor lending categories
- » Higher than usual legal and consultant costs incurred, related to the RTO
- » Higher loan provisions than previous years in order to be conservative going into growth phase
- » Private placements undertaken in Q3 & Q4 2018 raising \$2.7m to provide additional capital to ensure statutory capital adequacy levels are maintained
- » LeaseTech leasing has further enhanced opportunities in the automotive and hospitality sectors and new head of sales to join Q1 FY19
- » New B2B Micro lending business to existing customers has had an immediate impact with full year revenue to be realised in FY19

Note: All figures in this presentation are AUD unless otherwise stated.



# Product Offering - Lending

FEI Offering	Product	Security	Size/Term	Typical Offering/Product Suite
<b>SME Business Lending</b>	<ul style="list-style-type: none"> <li>» Business Loans</li> <li>» Working Capital Cash</li> </ul>	<ul style="list-style-type: none"> <li>» Business/Personal Security</li> </ul>	<ul style="list-style-type: none"> <li>» Up to \$600k</li> <li>» 1-4 Years</li> </ul>	
<b>LeaseTech</b>	<p><b>Equipment Leasing:</b></p> <ul style="list-style-type: none"> <li>» Commercial &amp; Industrial Equipment</li> <li>» Auto Equipment</li> <li>» IT Equipment</li> <li>» Medical Equipment</li> </ul>	<ul style="list-style-type: none"> <li>» Equipment Security</li> </ul>	<ul style="list-style-type: none"> <li>» Up to \$1m</li> <li>» 1-4 Years</li> </ul>	   
<b>Vendor Finance</b>	<ul style="list-style-type: none"> <li>» Financing of Rental Contracts</li> <li>» Invoice/Receivables Financing</li> </ul>	<ul style="list-style-type: none"> <li>» Contract Security</li> </ul>	<ul style="list-style-type: none"> <li>» Up to \$80k</li> <li>» 1-4 Years</li> </ul>	 
<b>Micro Lending</b>	<ul style="list-style-type: none"> <li>» Fast Cash (&lt;\$50k)</li> </ul>	<ul style="list-style-type: none"> <li>» Unsecured</li> </ul>	<ul style="list-style-type: none"> <li>» Up to \$50k</li> <li>» 1 Year</li> </ul>	
<b>Property Finance</b>	<ul style="list-style-type: none"> <li>» Commercial Developments</li> <li>» Hotel Developments</li> <li>» Business Expansion</li> </ul>	<ul style="list-style-type: none"> <li>» Business/Personal/ Land Security</li> </ul>	<ul style="list-style-type: none"> <li>» On Application</li> </ul>	



# FEI Group Limited

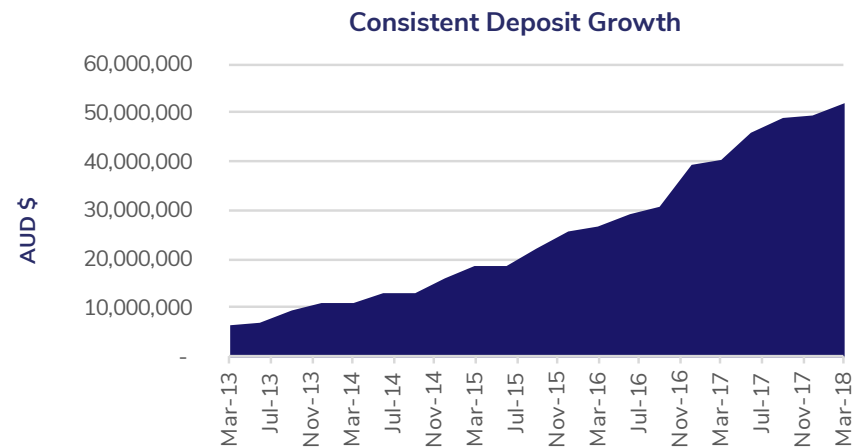
## Deposit Taking

FEI is licensed by the Reserve Bank of New Zealand (RBNZ) to take consumer deposits in New Zealand and overseas



- » Total deposits balance currently \$52m (29% increase from FY17)
- » FEI provides market leading deposit rates in NZ
- » License issued by Reserve Bank of New Zealand (RBNZ) as a non deposit taker offering first ranking secured deposits
- » FEI provides deposit taking in NZ for residents and Overseas customers
- » Average deposit amount continues increased to \$45,000 (+\$20,000 since 2014)
- » Outstanding reinvestment rate of 69%
- » FEI purposely slowed deposit growth over the past 6 months to be inline with capital allocations

Key Deposit Summary 2018	
Total Deposits	\$52M
Deposit Amount (avg.)	\$45,000
Deposit Accounts	1,200
Tenure (avg.)	9 Months
Deposit Rate (avg.)	6.3%

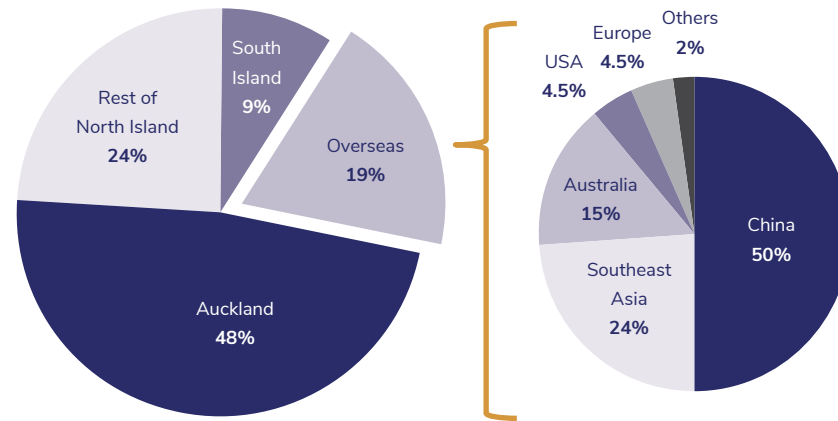


# FEI Group Limited

## Deposit Taking

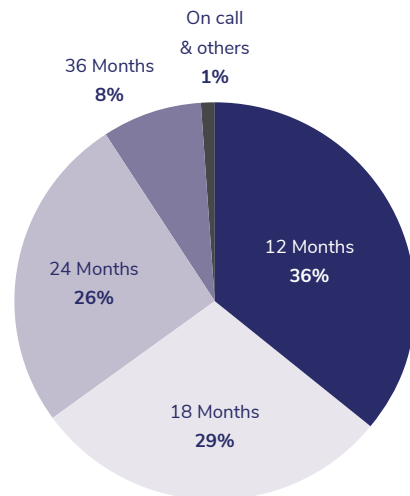
- » FEI has a sustained and consistent deposit customer base which is represented by geographical diversity
- » Overseas residents (mainly China) make up 19%
- » 50% of total depositors are composed of Chinese based NZ residents providing significant stability
- » Continue to focus on both Asian and mainstream market
- » Preparing to launch direct deposit taking activities in Australia

Geographical Representation FY18



Deposit Tenure FY18

Deposit tenure is well balanced



Dynamic Rates

FEI has the ability to adjust interest rates dynamically

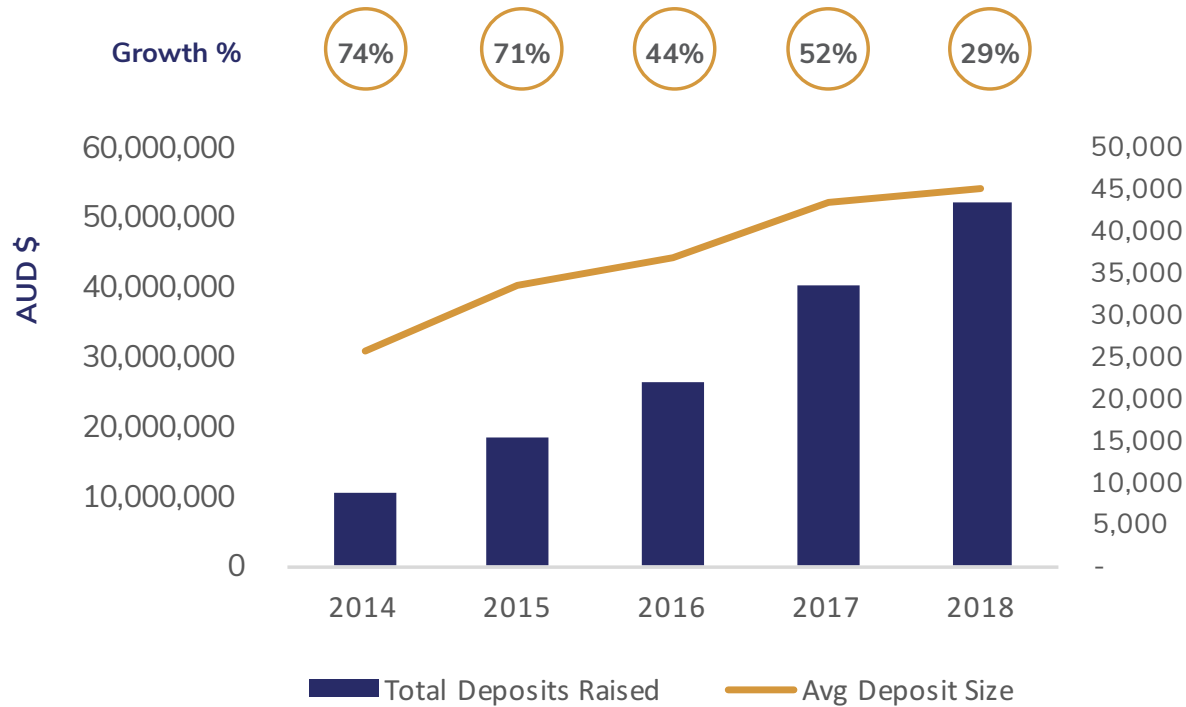
Minimum Deposit = \$5000

Term	Rate (p.a)
12 Months	4.80%
18 Months	5.00%
24 Months	5.30%
36 Months	5.50%

# FEI Group Limited

## Deposit Taking

Deposits - New and Reinvestment Totals



**\$52m**  
Total Deposits Balance  
(29%)

**\$45k**  
Average Deposit Size  
(FY18)

**69%**  
Depositors roll deposits  
at expiry of term

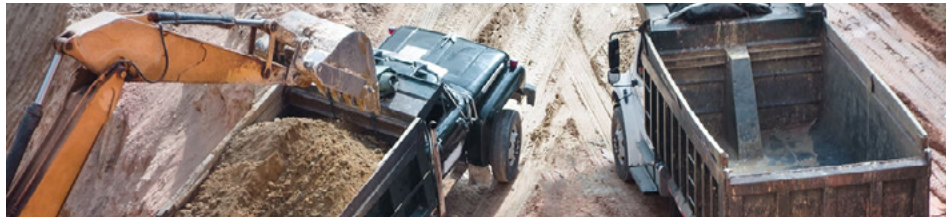




# FEI Group Limited

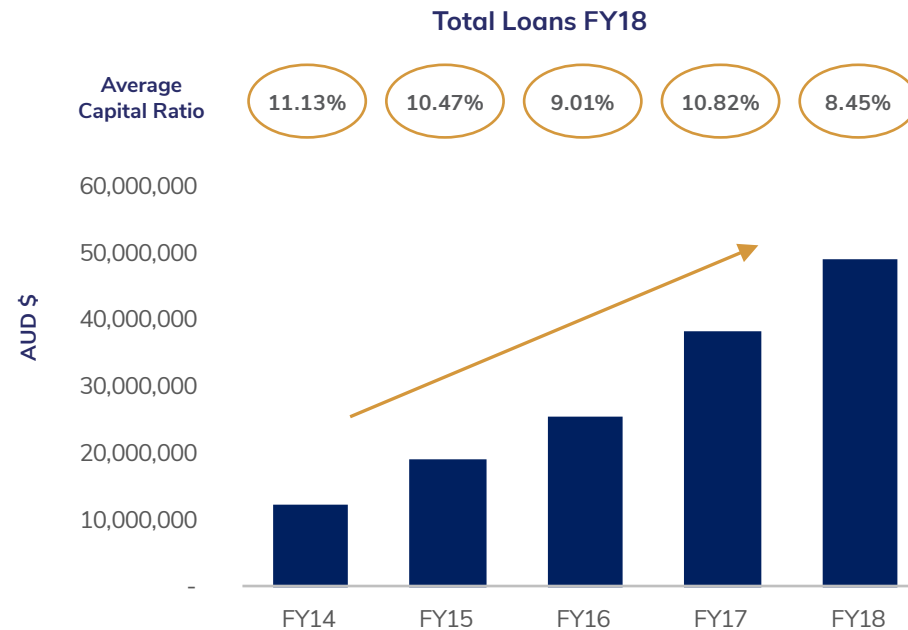
## FEI Lending

FEI offers an established and growing lending platform



- » Loan receivables have grown 28% since 2017
- » Large diverse customer base at 5,900 made up of recurring borrowers
- » Lending portfolio is driven by key categories:
  - » SME lending, LeaseTech and Vendor finance leases
- » SME Lending continues to deliver strong growth results:
  - » Launch of new additional leasing hospitality products
  - » Further penetration into automotive and medical suppliers
- » High average margin driven largely by SME lending
- » Conservatively managed capital ratio above 8% requirement

Loan Summary FY18	
Total Loans	\$49m
Loan Size (avg.)	\$8,500
Number of Customers	5,900
Loan Term (weighted avg.)	23 Months
Loan Margin (weighted avg.)	16%
Impairment Loss (5 yr avg.)	0.66%



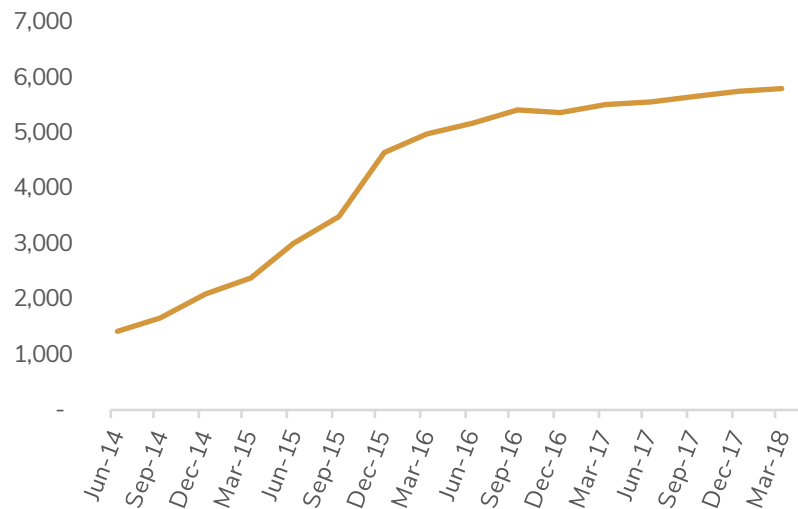
Note: \$400k of capital was injected in May to lift CAR to over 9.00%.

# FEI Group Limited

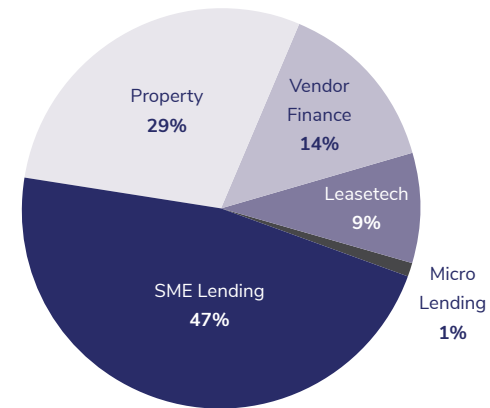
## FEI Lending

- » Total loan receivables have grown by 180% since FY15
- » FY18 driven by Vendor finance loans acquired under WSG merger
- » Property loan category represents 29% of total loan receivables however this category will reduce over next 5 months and re-deploy high capital allocation to SME and Vendor lending categories
- » Number of contracts were stabilised mid FY18 prior to capital raise
- » Even distribution of loan tenure of which 50% extends post 12 months with a weight value average of 18 months
- » Successful launch of new microlend B2B already at \$750k in a few months

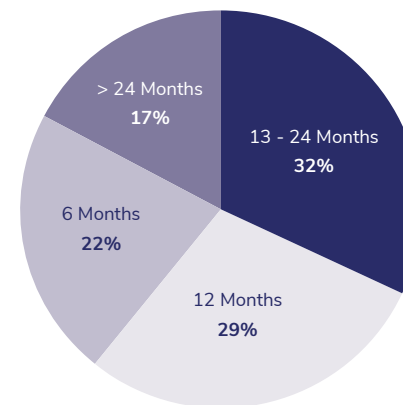
Number of Contracts 2018



Loan Book Diversity FY18



Loan Book – Tenure Distribution



## Financial Statements

# Income Statement

Revenue growth is expected to continue through FY19

- » Revenue continues to show strong growth of 80% in FY18 due to following;
- » LeaseTech leasing securing a number of automotive contracts which provide sound margins
- » Interest income from receivables continues with strong growth as loan book also grew by 28% due largely to SME growth
- » New finance leases (post acquisition) are a new revenue stream for the Company
- » Due to the consolidation of the two businesses, overhead cost structure was substantially higher than the Company's historical norm. The Company will be undertaking cost-efficiency measures to drive operating costs to be more in line with historical norms.
- » NPBT for FY18 was negatively impacted by one-off merger and transaction costs, revaluation of finance leases, more conservative provisions and write off acquisition goodwill.
- » Business now has clear path to grow profitability

Income Statement (AUD)			
	FY16	FY17	FY18
Finance Lease Revenue	-	-	5,263,395
Interest Income	3,323,741	5,326,129	6,770,716
Fee Income & Others	1,226,769	1,507,516	261,570
<b>Group Revenue</b>	<b>4,550,511</b>	<b>6,833,645</b>	<b>12,295,681</b>
Revenue Growth	45%	50%	80%
Funding Costs / Interest Exp	1,737,698	2,267,216	3,144,488
COGS for Finance Lease	-	-	3,874,626
<b>Gross Profit</b>	<b>2,812,813</b>	<b>4,566,429</b>	<b>5,276,567</b>
Gross Margin	61.81%	66.82%	42.91%
Operating Expenses	1,775,611	3,012,289	18,725,792
NPBT	1,037,202	1,554,140	(13,449,225)
NPBT Growth	71%	50%	-
Add back - Goodwill impairment	-	434,588	11,654,928
Add back - Transaction costs	-	-	222,052
Add back - One off merger costs	-	-	635,107
<b>Adjusted NPBT Loss</b>	<b>-</b>	<b>1,988,728</b>	<b>(937,000)</b>

Key Metrics			
	FY16	FY17	FY18
NIM (Average)	6.48%	8.28%	7.78%
Interest Cover	1.91	2.35	2.15

**Note:** Merger Costs have been Normalised. Financials are based of Unaudited Accounts. This excludes Merged Entity WSG. Year End is 31st March.

## Financial Statements

# Balance Sheet

\$65m in Total Assets as at FY18

- » Total assets have grown by 90% since 2016
- » Significant cash balance of \$12.5m supported by deposit growth of 29% in last year
- » Total Assets in FY18 increased due to new lending and finance lease receivables
- » Conservatively geared balance sheet with minimal debt (1.5% of total assets)
- » Option to seek syndicated debt facility if required to reduce pressure on capital
- » Capital adequacy conservatively managed. Next year, management are targeting 9.50%; currently over 9.00%.

Balance Sheet (AUD)			
	FY16	FY17	FY18
Deposit	26,600,134	40,416,615	52,175,826
Deposit Growth	44%	52%	29%
<b>Total Loans</b>	<b>25,550,701</b>	<b>38,341,548</b>	<b>49,022,772</b>
Loan Growth	35%	50%	28%
<b>Total Assets</b>	<b>33,589,611</b>	<b>50,584,514</b>	<b>64,899,518</b>
Asset Growth	48%	51%	28%
Net Debt	0	0	0
Key Metrics			
	FY16	FY17	FY18
Loans/Deposit Ratio	0.96	0.95	0.94
Capital Adequacy Ratio	9.01%	10.82%	8.5%
Impairment Losses	0.10%	0.70%	1.48%

**Note:** Merger Costs have been Normalised. Financials are based of Unaudited Accounts. This excludes Merged Entity WSG. Year End is 31st March.

## Financial Statements

# Cashflow

\$12.5m Cash Held as at FY18

- » Operating cashflow activities include deposit taking and making advances to borrowers
- » Net negative operating cashflow means that the company is making more loans and drawing down its cash reserves. More loans means more revenue
- » \$2.7m of fresh capital raised to support growth
- » Company still has healthy cash reserves of \$12.5m representing 19% of Total Assets

Cashflow (AUD)		
	FY17	FY18
Interest and fee income	5,147,372	2,401,887
Finance lease and interest income	-	750,277
Interest expense	(1,117,843)	(2,085,780)
Cost of leasing products	-	(3,929,877)
Cash payments to suppliers and employees	(2,596,717)	(4,528,649)
Net finance receivables	(11,211,260)	3,709,015
Net finance lease receivables	-	(7,574,053)
Increase in net term deposits	12,275,654	9,474,990
Other	-	94,090
<b>Net cashflows from operating activities</b>	<b>2,497,206</b>	<b>(1,688,101)</b>
<b>Net cashflows from investing activities</b>	<b>(99,259)</b>	<b>(93,149)</b>
Issue of ordinary shares	2,045,065	1,666,334
Acquisition of subsidiary, net of cash acquired	-	280,388
Other	-	959,073
<b>Net cashflows from financing activities</b>	<b>2,045,065</b>	<b>2,905,796</b>
Opening cash	6,641,663	11,408,110
Net movement in cash held	4,443,012	1,124,545
<b>Closing cash</b>	<b>11,084,675</b>	<b>12,532,655</b>

**Note:** Merger Costs have been Normalised. Financials are based of Unaudited Accounts. This excludes Merged Entity WSG. Year End is 31st March.

## Market Opportunity

# Business Proposition

FEI is a leading provider of innovative financing



### Established Track Record

- » Over 15 years of operational experience
- » Stringent governance regime regulated by the Reserve Bank of New Zealand and Independent Trustee
- » S&P credit rating of since 2014 currently at B negative

### Loyal Customer Base

- » Established customer deposit base - “competitive advantage” for FEI over lending competitors
- » Broad and diverse loan distribution network built

### Compelling Business Economics

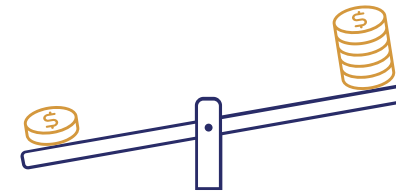
- » Significant leverage can be applied to increase ROI
- » Long term annuity rental contracts above industry average ROE
- » Diverse range of product offerings across both deposit and lending

### Funding Considerations

- » Historically funded capital via equity contributions from shareholders
- » Access to public markets for future funding
- » Capital light wholesale funding being explored

### Funding Considerations

Unique proposition of being able to leverage deposit taking capabilities



\$1 of Capital enables \$4 of Deposits which Generates \$5 of Total Assets

### Business Economics

**16%**

Avg. Loan Margin

-

**6.5%**

Avg. Deposit Cost

=

**8.6%**

Avg. Net Interest Margin

Significant return to investors

## Market Opportunity

# Unique Positioning for Future Growth

FEI is financially profitable but injection of equity capital will facilitate stronger and faster growth



- » Continue to invest in a compelling and different value proposition to generate strong momentum inclusive of :
- » Release of enhanced online website enabling loan online applications
- » Begin investor engagement to enhance liquidity for retail and institutional shareholders
- » Further enhancement of IT platform to enhance product offerings and enhanced operational efficiencies
- » Seeking upgrade in S&P rating following further sell down in property loan exposure

**Continued growth in earnings expected to continue in FY19 and beyond underpinned by:**

- » Increasing current network volumes with additional sales personnel
- » Micro lending pipeline already at \$750k in 6 months from existing customer base
- » Compounded by increased reoccurring interest income and cashflow stream from loan portfolio

- » Expand product offering into Australia with finalisation of NBDT license
- » Listing now enables acquisition opportunities to be explored in Australia and New Zealand
- » Further development of Fintech offering





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