

Lodged by ASX Online

31 October 2014

The Manager
Company Announcements Office
ASX Limited
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

APPENDIX 4C: QUARTERLY COMMITMENTS REPORT

We attach the company's Appendix 4C report for the three months ended 30 September 2014.

EXECUTIVE SUMMARY

The company completed the acquisition of Vow Financial Holdings Pty Ltd (Vow) and Resi Mortgage Corporation Pty Ltd (Resi) on 29 August 2014. This is a major milestone in the company's strategy to become a leader in the non-bank segment of the financial services market.

These acquisitions bring scale in distribution and additional product competencies to the group. Key changes as a consequence of the acquisitions include:

- 995 distribution points (up from 206 at the end of last quarter) including:
 - 215 Yellow Brick Road (YBR) physical branch Licensees
 - 742 Vow brokers
 - 38 Resi Franchisees with branded shopfronts and
- 124 Staff (up from 65 at the end of last quarter). Group staff do not include employees of independent licensees, franchisees and brokers that make up the broader distribution network.
- Loan book totalling \$25.45b (up from \$2.68b at the end of last quarter)
- Mortgage management capacity to complement YBR's existing product distribution capabilities.

In addition to completing the Vow and Resi acquisitions the group initiated its integration strategy, ramped up marketing activity to drive revenues through the larger distribution network and released the Resi Flexible Options Home Loan for distribution through its expanded network.

Net operating cash outflows in Q1 FY2015 have been abnormally high as a consequence of the acquisitions and related matters. They are expected to return to sustainable levels next quarter.

FINANCIAL SUMMARY

In Q1 FY15 the company raised \$42.05m from an equity placement to fund acquisitions and working capital. Borrowing facilities, provided by the Commonwealth Bank of Australia (CBA), were increased from \$5.0m to \$12.5m. As at 30 September, the additional CBA facility has not been utilised.

The group paid \$37.8m in cash consideration for Vow and Resi. Q1 FY2015 operating cash outflows included \$2.0m in associated acquisition and integration costs. As at 30 September, the group has \$11.5m in cash plus \$7.5m in undrawn borrowing facilities.

The results for this quarter include one month (September) of cash flows generated by Resi and Vow and three months of cash flows generated by YBR.

On this basis, total receipts from customers increased by \$8.9m (125%) to \$16.0m (Q4 FY2014 \$7.1m).

Net operating cash outflows (excluding net underwriter payments) for the quarter of \$3.88m incorporate \$2.00m in acquisition and integration expenditure, \$0.13m in annual bonuses and deferred operating expenditure of \$0.50m.

Excluding these items, net operating cash outflows for the Group were \$1.25m. (Q4 FY2014: \$0.62m).

	\$m
Reported net operating cash flows	(4.09)
Net payment to insurance underwriters	0.21
Net operating cash flows (excluding underwriters)	(3.88)
Acquisition and integration costs	2.00
Other timing and non-reoccurring items	0.63
Adjusted net operating cash flows	(1.25)

The result does not reflect the full benefit of the synergies available from the acquired businesses.

QUARTERLY CASH FLOW RESULTS

The cash balance as at 30 September 2014 is \$11.53m, a net decrease of \$0.6m since 30 June 2014.

Operating Cash Inflows

Receipts from customers increased in Q1 FY2015 by 125% to \$16.01m (Q4 FY2014 \$7.11m). This includes a 157% increase in receipts from branches to \$14.66m (Q4 FY2014 \$5.70m). This result includes one month of receipts from the acquired businesses.

Operating Cash Outflows

Operating Cash Outflows include one month's payments by the acquired businesses. The result does not reflect the full benefit of synergies. An outline of the Group's integration strategy is included in the operational review below.

- The acquisitions of Resi and Vow were completed on 29 August 2014. During Q4 FY2014 operating cash outflows included \$2.00m payments associated with these acquisitions and subsequent integration activity.
- Payments for staff costs, \$2.19m include additional expenditure from the acquired businesses and payment of \$0.13m in annual staff bonuses.
- Payments for advertising and marketing, \$0.41m were 141% more than last quarter (Q4 FY2014: \$0.17m). This reflects increased promotional activity during the quarter.
- Payments for other working capital, \$15.32m included \$12.2m revenue share paid to branches and brokers. The balance \$3.1m is 72% higher than last quarter (Q4 FY2014: \$1.8m). It includes additional expenditure from the acquired businesses and \$0.50m in expenditure delayed during the acquisition process.
- Net outflows to insurance underwriters in Q1 FY2015 were \$0.21m (Q4 FY2014 net inflow of \$0.25m). The group receives general insurance premiums from clients and remits these to underwriters between 60 and 90 days after receipt. The difference between premiums received and paid is recorded as an underwriter deficit or surplus. Net premiums received on behalf of underwriters are passed through to underwriters and have zero impact on profit. However the timing of underwriter receipts and payments causes fluctuations in the underwriter deficit or surplus from period to period.

QUARTERLY COMMENTARY

Brand

- During the quarter, the Company launched its first major marketing campaign of the financial year.
- The campaign included a national TV advertisement across major metro and select regional areas, as well as a diverse online campaign, encompassing digital display, electronic direct mail, social media, search engine marketing, remarketing and comparison site advertising.
- The hero of the campaign was the 4.64% p.a. Rate Smasher Home Loan, the lowest variable rate on the market from a branch based institution and the Company's lowest rate ever.
- The creative idea brought the campaign back to the 80's for a Quiz Show to challenge people's ideas and misconceptions about home loans.
- The results of the campaign were exceptional, with record lead flows recorded in both August and September.

Product

- To take advantage of the increasingly popular fixed rate market, the Resi Flexible Options Home Loan was released for distribution via the Yellow Brick Road and Vow networks. The Flexible Options loan brings a unique level of flexibility to a fixed rate loan which complements the existing range of loans available to the YBR network.
- To make the most of the new advertising campaign, rates were sharpened on the Empower Home Loan range, including the featured Rate Smasher Home Loan. The new pricing brought the Rate Smasher down to 4.63% p.a. (comparison rate 4.64% p.a.), making it one of the

lowest variable rates in the market. This positioning gave the company a strategic competitive advantage, especially on comparison rate sites where the product is heavily featured.

Integration

- The Group's priority is to drive new revenue opportunities through the expanded branch network comprising 215 YBR physical branch licensees, 742 Vow brokers and 38 Resi franchisees with branded shopfronts, totalling 995 distribution points. In September the first Resi product was launched in the network.
- Broad operational redesign has commenced to leverage efficiencies available from increased scale. This process will be ongoing. Benefits will have a positive effect on results from Q2 FY2015 onwards.

As a stand-alone business Yellow Brick Road has proven its capacity to distribute multiple financial products through a branch network. The acquisitions of Vow and Resi have created an exciting opportunity to expand the group's product depth and accelerate the growth of all three businesses.

We look forward to updating shareholders and investors on our progress with the integration of the acquisition and the growth in the business overall at our half-yearly update.

Kind Regards

A handwritten signature in blue ink, appearing to read 'Richard Shaw'.

Richard Shaw
Company Secretary

**Quarterly report
for entities admitted
on the basis of commitments**

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Yellow Brick Road Holdings Limited

ABN

44 119 436 083

Quarter ended ("current quarter")

September 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from customers	16,012	16,012
1.2	Payments for		
	(a) staff costs	(2,185)	(2,185)
	(b) advertising and marketing	(409)	(409)
	(c) Transfer of business		
	(d) leased assets		
	(e) other working capital	(15,323)	(15,323)
	(f) Net payment to insurance underwriters on behalf of clients (1)	(210)	(210)
	(g) Acquisition costs	(2,004)	(2,004)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	169	169
1.5	Interest and other costs of finance paid	(136)	(136)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
Net operating cash flows		(4,086)	(4,086)

- (1) The Company receives general insurance premiums from clients and remits these to underwriters between 60 and 90 days after receipt. The difference between premiums received and paid is recorded as an underwriter deficit or surplus. As a consequence of these timing differences, payment to underwriters exceeded receipts from clients in the period by \$210,000.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(4,086)	(4,086)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	(35,892)	(35,892)
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets		
(e) other non-current assets	(462)	(462)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)		
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets		
(e) Intangibles: Under performing Accounting clients		
1.11 Loans to other entities		
1.12 Loans repaid by other entities		
1.13 Purchase of available for sale investments: (Working capital held in YBR Smarter money equity fund redeemed)		
Net investing cash flows	(36,354)	(36,354)
1.14 Total operating and investing cash flows	(40,440)	(40,440)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	42,050	42,050
Cost of capital raising and debt arrangements.	(2,033)	(2,033)
1.16 Proceeds from sale of forfeited shares		
1.17 Proceeds from borrowings		
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.20 Other (provide details if material)	(155)	(155)
Net financing cash flows	39,862	39,862
Net increase (decrease) in cash held	(578)	(578)
1.21 Cash at beginning of quarter/year to date	12,112	12,112
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	11,534	11,534

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	551
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Payments to related parties in 1.24 above include:

- Directors' fees \$28,134
- Golden Wealth Holdings Pty Ltd (GWH), a director related entity of Mark Bouris received contracted payments of \$222,783 covering consultancy fees and recovery of rental costs for offices occupied by the Company during the period.
- BBB Capital Pty Ltd (BBB), a director related entity of Adrian Bouris, received \$300,000 for negotiating and managing due diligence and acquisition of two businesses (Resi and Vow) with a combined value in excess of \$50m. The services were provide on, a success only basis, over an extended period during the 9 months preceding completion of the acquisitions.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Consideration paid for Vow and Resi included 17,124,384 ordinary shares in Yellow Brick Road Holdings Limited.

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	12,500	5,000
3.2 Credit standby arrangements		

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	2,871	3,216
4.2 Deposits at call	8,663	8,896
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	11,534	12,112

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	1. Resi Mortgage Corporation Pty Ltd 2. Vow Financial Group Pty Ltd	
5.2 Place of incorporation or registration	1. Sydney, NSW 2. Sydney, NSW	
5.3 Consideration for acquisition or disposal	1. \$36,000,000 2. \$17,601,566	
5.4 Total net assets*	1. \$35m – \$40m 2. \$15m – \$20m	
5.5 Nature of business	1. Mortgage Manager 2. Mortgage Broker	

*Note that the total net assets disclosed in item 5.4 above represent a range for Vow and Resi as determined by independent valuation during due diligence, prior to completion. These amounts are provisional, as permitted by AASB3, pending completion of the initial accounting for the business combinations.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does ~~/does not*~~ *(delete one)* give a true and fair view of the matters disclosed.



Sign here: Date: 31 October 2014
(Company Secretary) Richard Shaw

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.