

17 August 2015

Lodged to the ASX Online

The Manager  
Company Announcements Office  
ASX Limited  
Level 6, 20 Bridge Street  
Sydney NSW 2000

### **Strategy Update**

Dear shareholders and investors

The mortgage sector has experienced considerable change in recent times. In the last couple of months our industry has observed tightening around investment lending and the majority of the banks have announced, in the last few weeks, an out-of-cycle interest rate increase for investor clients.

Given the pace of change in our industry, we thought it was timely to update shareholders and investors on the impact of such market shifts to Yellow Brick Road Holdings Limited ahead of fully audited financial results, which are due in the last week of August 2015.

At Yellow Brick Road Holdings, we have been building our company strategy and business model around such a shift in the market – albeit the shift has come earlier than we expected. These changes afford a great opportunity for a business like ours. Our recent acquisitions of Vow Financial and Resi Mortgage Corporation, combined with the growth of the Yellow Brick Road branch network, mean our company now has the size, scale and capability to establish a securitisation program. This complements our existing funding partnerships, and will enhance our funding options in mortgages and improve margins. Furthermore, it will provide the capability for us to develop new offers to take to market, including personal lending.

The attached ‘strategy update’ presentation provides an overview of our financial results at a high level, showing that we have delivered on our commitment for an operating breakeven for the financial year. The presentation also addresses the business’ performance following our acquisition of Vow Financial and Resi Mortgage Corporation. Most importantly, we highlight some of the opportunities that now present themselves in our plan for the future.

Our executive team will be available tomorrow to discuss this information further. To register your interest in a teleconference contact Lyndsey Douglas, External Affairs Manager [lyndsey.douglas@ybr.com.au](mailto:lyndsey.douglas@ybr.com.au).

For and on behalf of  
YELLOW BRICK ROAD HOLDINGS LIMITED



Mark Bouris  
Executive Chairman

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Yellow Brick Road Holdings Limited | ABN 44 119 436 083

# **Yellow Brick Road Holdings FY 2016 Strategy Update**

August 2015



**YellowBrickRoad**  
Wealth Management

# Executive Summary:

## Delivery in FY15, Enhancement in FY16, Position For Growth

- Delivered on our commitment to get to operating breakeven this FY15
- Underpinned by strong execution of our strategies through FY15
  - Distribution scale – near four fold increase in points of presence off the back of acquisitions
  - Diversification – six product introductions improved spread of income
  - Margin – scale from acquisitions improved corporate margin 140% yoy
  - Brand – acquisition marketing generating 40% increase in leads yoy
- Some big changes for FY16 will reinforce our business model
  - Major brand investment – trebling of marketing spend to generate leads and brand uplift
  - Proprietary securitisation – enhancing margin, control and diversification
  - New business lines - personal Lending, mortgage life insurance
- Leaving Yellow Brick Road uniquely positioned for growth
  - Wealth – diversifying revenues and provides broader customer base for stability
  - Distribution scale & diversity – true national multi-channel reach
  - RESI mortgage manager capability – brings manufacturing and credit assessment in house
  - Widened lender margins – brings forward our securitisation plans

# 1. Our Commitment To Investors

# **Yellow Brick Road delivered our key commitment of operating breakeven in FY15\***

Yellow Brick Road has delivered on our key commitment to achieve an operating breakeven performance in FY15. The following are expected:

- Underlying Earnings\*\* Before Interest Tax & Depreciation (EBITDA) of circa \$1.0m \*\*\*
  - Represents an improvement of circa \$6m compared to (\$5.2m) in FY14
- A net loss after tax (NPAT) of better than (\$1.0m)
  - Represents an improvement of circa \$8m compared to (\$8.8m) in FY14
- Underlying EBITDA excludes & NPAT (IFRS) includes some one off effects
  - Circa \$4.0m acquisition and integration costs
  - Non cash share expense of \$4.2m
  - Offset by a significant tax benefit

Audited financial results will be released before the end of August.

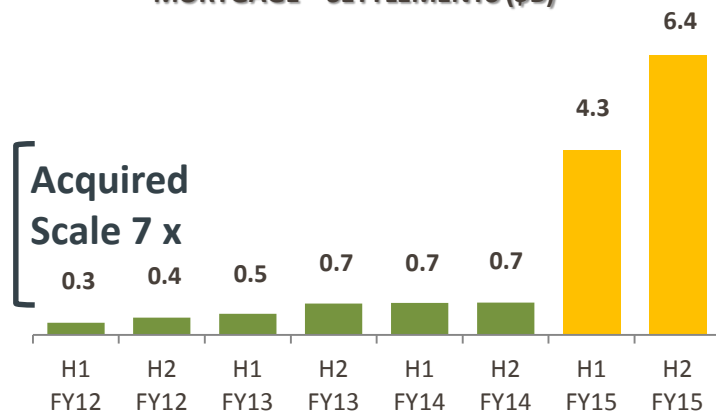
\*This guidance is based on unaudited expected financial results

\*\* Underlying EBITDA excludes acquisition and integration costs and non cash share expenditure.

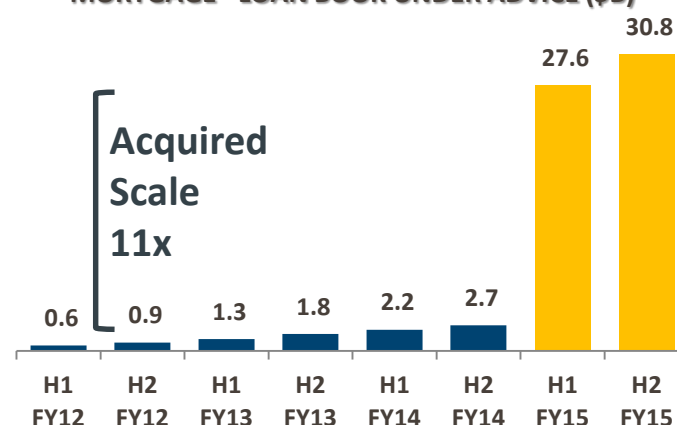
\*\*\* Underlying EBITDA normalised for 12 months ownership of Vow and Resi is circa \$1.7m

# Acquired 7- 11x scale in mortgages. Also grew organically on normalised basis by 42% versus FY14

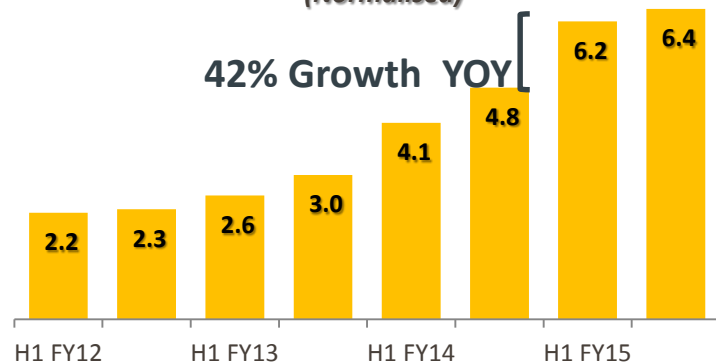
MORTGAGE – SETTLEMENTS (\$B)



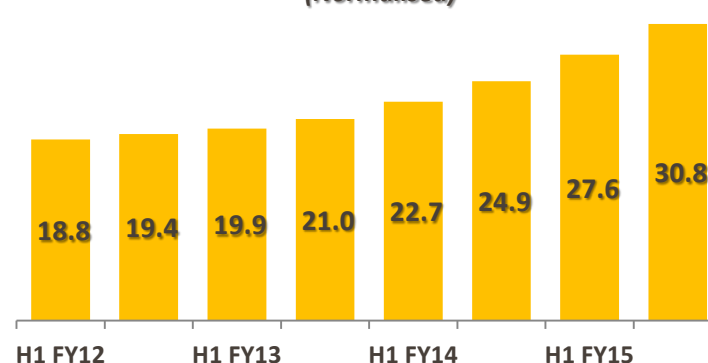
MORTGAGE - LOAN BOOK UNDER ADVICE (\$B)



MORTGAGE – SETTLEMENTS (\$B)  
(Normalised)



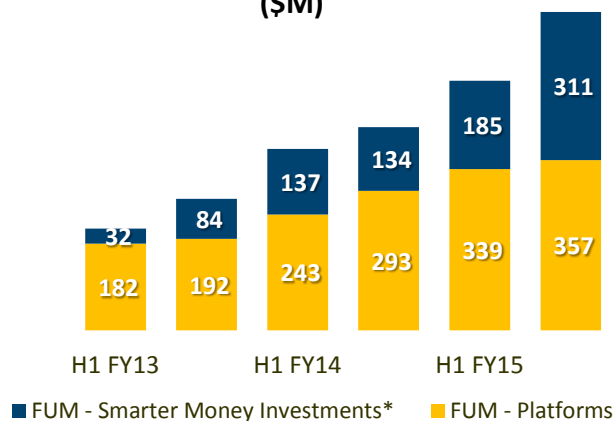
MORTGAGE - LOAN BOOK UNDER ADVICE (\$B)  
(Normalised)



FY14	\$8.9B
FY15	\$12.6B
	<b>+42%</b>

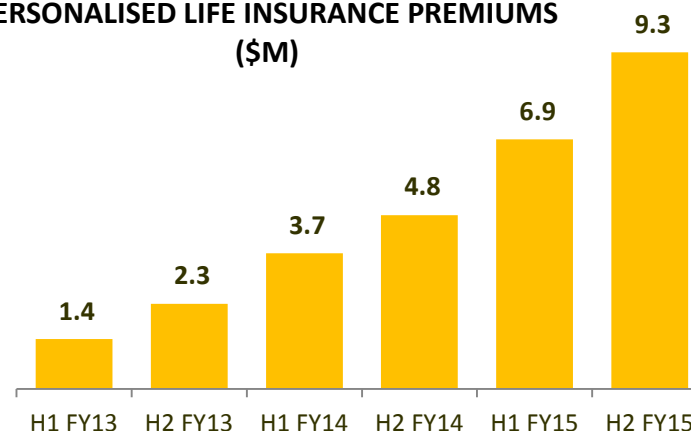
# Strong organic growth in wealth yielding an increase of 57% in FUM and 94% in insurance book

**TOTAL FUNDS UNDER MANAGEMENT (\$M)**



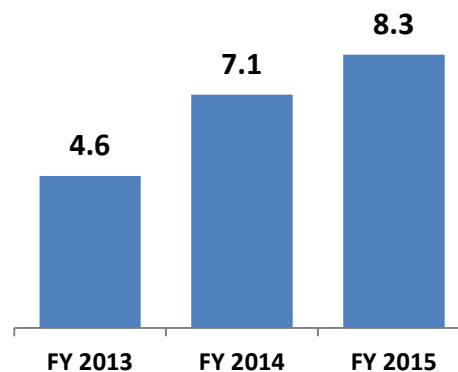
FY14	\$427M
FY15	\$668M
	<b>+57%</b>

**PERSONALISED LIFE INSURANCE PREMIUMS (\$M)**



FY14	\$4.8B
FY15	\$9.3B
	<b>+94%</b>

**WEALTH REVENUE (\$M)**

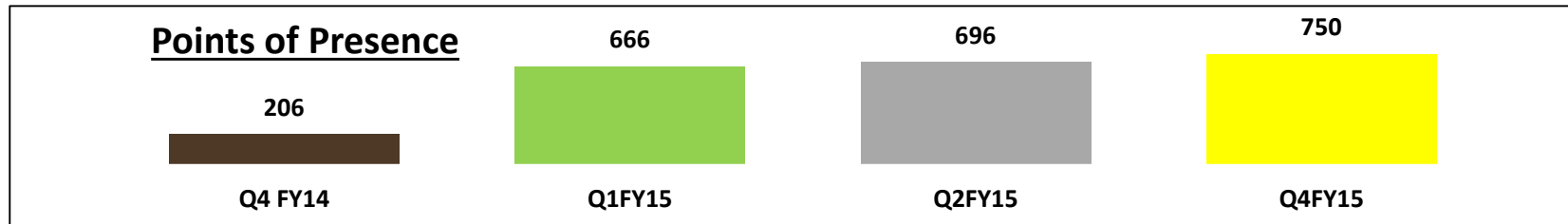





## **2. Underpinned by Strong Execution of our Strategies**



# Integration completed ahead of time delivering substantial distribution scale & product capability

*Strategy: Aggressively pursue growth across all major channels for scale benefits*



- Significant growth in distribution footprint and channel diversity 
  - Addition of broker channel via Vow, together with Resi, trebled group reach
  - Preserved and grew Vow broker group customer base post acquisition by 25% in year
  - Transition and rebrand of 19 Resi Branches to YBR Branches
- Enhanced product capability, reach & margin 
  - Resi brings “Mortgage Manager” capability - manufacturing & credit assessment
  - YBR “white-label” (Macquarie funded) mortgage launched to Vow channel
- Move to an integrated “shared” service model 
  - Finance & Technology consolidated with FTE efficiencies achieved
  - Marketing consolidated from 3 teams to 1 – investing scale benefits in digital capability
  - Compliance and HR – scale benefits invested in strengthened training capability

# YBR Group - Target Business Model achieved

## Distribution

### Branded Shopfronts



**YellowBrickRoad**  
Wealth Management

- Branch Licence agreement
- Fully branded
- Shared customer comms
- Mortgages and Wealth
- Main street shop fronts

### Broker Aggregator



- Broker aggregation model
- Broker self branded
- Broker “owns” customer relationship
- Mortgage focused
- Wealth where appropriate

## Infrastructure and Support

Brand and Marketing

Licensing (Credit and Wealth)

Website services and support

CRM and Broker Platform Technology

Business and Advice Coaching

Credit and Underwriting

Shared Services  
(Finance, Compliance, Technology, HR)

## Product Delivery

### Mortgages



Bendigo and  
Adelaide Bank



### Commercial Investment



### Gen & Life Insurance



### Funds Management



### Platform



# Margin, diversification and brand strategies also contributed strongly to results and platform for future years

**Strategy:** *Grow margin through measured participation across value chain*

- Acquisitions provided immediate margin benefits
  - RESI mortgage manager margin +10-20% vs. white label; double broking margin.
  - New Vow Leasing aggregation model removes 3<sup>rd</sup> party aggregator and claims sourcing margin
  - Corporate margin up 140% on white label expansion & volume leveraged in negotiations

**Strategy:** *Participate in all relevant markets for diversification & loyalty benefits*

- Increased participation in adjacent revenue streams sets up FY16
  - Lending – new Options range takes Group into specialised lending
  - Wealth – launch of GURU will take advice to the 80% of consumers currently unadvised
  - Commercial – built specialised commercial lending business unit at Vow
  - Bolt-ons – conveyancing & leasing launched across both channels

**Strategy:** *Drive customer growth by developing & leveraging challenger brands*

- Strong leverage of Yellow Brick Road brand pushes leads up 62%
  - Hopes & Dreams brand campaign building brand equity and purchase interest
  - Lead generation campaign building 62% more leads off similar investment vs. 2014

# **3. 2016 Strategy**

## **Major Enhancements to our Business Model**

# Significant business and acquisition activities to enhance capability and further accelerate growth



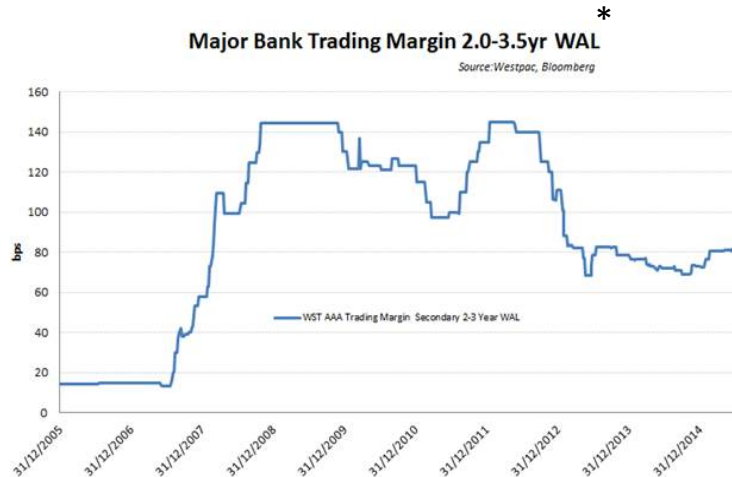
## Key Business Initiatives

- Securitisation – time is ripe to launch a program in Q2
- Brand Build – treble our marketing spend versus FY15
- Mortgage Life Insurance – major YBR branded margin play
- Direct & Online – new direct business starting with personal lending

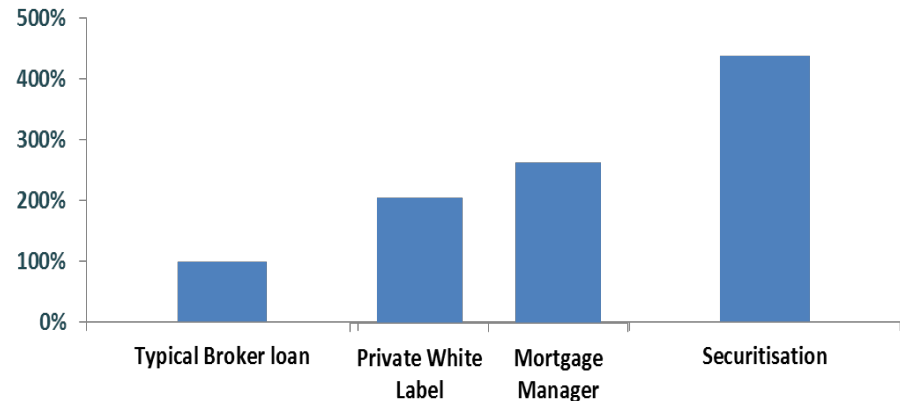
# **Regulator driving changes in lending market which advantage Yellow Brick Road**

- Regulatory concern driving change in sector
  - BASEL 3 raises regulatory capital requirements for ADIs
  - RBA, ASIC, APRA concerns re investment lending driving overheated property prices
  - APRA capped investment lending & tightened credit assessment criteria
- Banks responding to APRA with tightened lending criteria & increased rates
  - With intended impact of reducing investment lending availability
  - Forcing investment borrowers out in search of alternate lenders
  - Increasing the margin between wholesale and retail rates
- Yellow Brick Road is already well positioned to capitalise on these changes
  - Our core owner occupied market will increase off the back of consumer demand
    - YBR's highly competitive rates and high media profile in FY16 will pull in the leads
    - Our retail branch network has strong owner occupied base and capability
  - The investor market will tighten but we are well positioned to compete for quality loans
    - RESI mortgage manager capability brings manufacturing and credit assessment in house
    - Bundling advice with lending enhances investment borrower's prospects
    - Increased complexity will encourage investment borrowers to seek advice
  - Vow Commercial lending offer lessens reliance on investment lending

# Opportune timing for securitisation which will further advantage YBR.



**YBR Relative Retained Value by Funding Program** \*\*



- YBR held off on securitisation launch pending appropriate scale & market conditions
- These are now the ideal circumstances to realise our securitisation plans
  - Wider lender margins set us up for securitisation
  - RMBS market is stable in terms of funding margins and liquidity
- Which will further advantage us, add flexibility and control
  - Granting flexibility to fill gaps in segments mainstream ADIs have departed
  - Allow flexibility on tactical allocation of funding
  - Give us more control over rate calls and their timing
  - Reduces concentration of funding sources

# YBR is perfectly poised with a platform two years in the making & expect to be in market by December



- Launch targeted for 2nd quarter FY2016 i.e. December 2015
- Much of required capability & structure built in FY14 and 15
  - RESI capabilities including credit and customer service teams in place
  - Legal structures and appropriate funding entity in place
  - Transactional banking platform to support program now established
  - Leading providers appointed for mortgage servicing, trustee & legal counsel
- Significant progress already made on remaining items
  - Warehouse funding terms well progressed with leading Australian Bank
  - Mezzanine funding discussions under way
  - Servicing platform customisation & reporting in final stages of development



# Pursing direct & online market opportunities



- Aspiration to create direct consumer and SME business in lending and wealth
- Considering buy versus build options for tech platforms
- Acquisition opportunities in direct personal lending and wealth in review
- Personal lending is an ideal entree
- Securitisation funding capability will be able to support direct lending

# YBR will enter the mortgage life insurance market with a breakthrough branded product in second quarter FY16



- Mortgage life insurance is a life product offered in mortgage sales process
- Enhances our ability to convert mortgage clients to wealth
- Current offerings have limited margin and risks to client experience
- YBR has agreed terms with a major global provider & will launch Q2
- Product designed to YBR's needs and branding offering
  - Up-front underwriting for better client experience
  - Competitive affordable pricing for our target market
  - A direct relationship with insurer which improves margins to YBR

# YBR will treble marketing spend behind a major lead and brand building push in FY16



- Significant increase in television investment and presence across FY16
  - \$5M of media support in FY16 at best in market rates, gives 10 months coverage
  - Celebrity Apprentice content to value of \$17M in H1 16 – leveraged across Q2
- A major investment in upgrading data and new in-house media channels
  - Single customer view under construction – to complete Q3
  - New email platform in place / Website rebuild to complete Q2
  - Branch marketing, tracking & reporting capability upgrade
- To drive a significant increase in brand strength and double brand leverage
  - Target brand equity to increase by 50%
  - Target leads to increase > 90%

# Summary

- In FY14 we communicated our strategy to become a leading non-bank lender, acquiring Vow and Resi which provided us with scale in distribution and capability in originating mortgages.
- In FY2015 we completed the acquisitions, integrated the businesses and as communicated are profitable on an underlying basis excluding acquisition, integration and abnormal costs (unaudited).
- The recent shift in the mortgage market advantages YBR allowing us to diversify our funding sources with a new securitisation program
- Trebling of marketing investment will build our brand and ramp up our lead generation to take advantage of our now national coverage.
- Full year results (audited) and Annual Report due end August. Further detail on FY15 results and plans for the future will be included in an Investor Update in September 2015.