

HALF YEAR PERFORMANCE FY 2016

Tim Brown – Lending | **Matt Lawler** – Wealth | **Scott Graham** - Commercial





Investor Proposition

Yellow Brick Road Holdings Limited (ASX:YBR) aims to be the leading non-bank financial services company in Australia.

YBR is a growth stock and disruptor whose business model:

- Taps the enduring popularity of real estate and a proven mortgage based customer acquisition model
- Leverages the permission a new mortgage relationship affords to address the client's emerging wealth needs
- Reaches the 80% of Australians that wealth companies ignore until pre-retirement
 - The move to self funded retirement is gathering momentum, meaning Australians are engaging in wealth earlier
 - By targeting its mortgage offer to young families, Yellow Brick Road can introduce wealth far earlier and harvest a longer annuity stream
 - YBR's seamless offering is free of the barriers the banks' silos create
- Earns robust annuity streams that are complementary – wealth increases as home loans are paid down

Mark Bouris

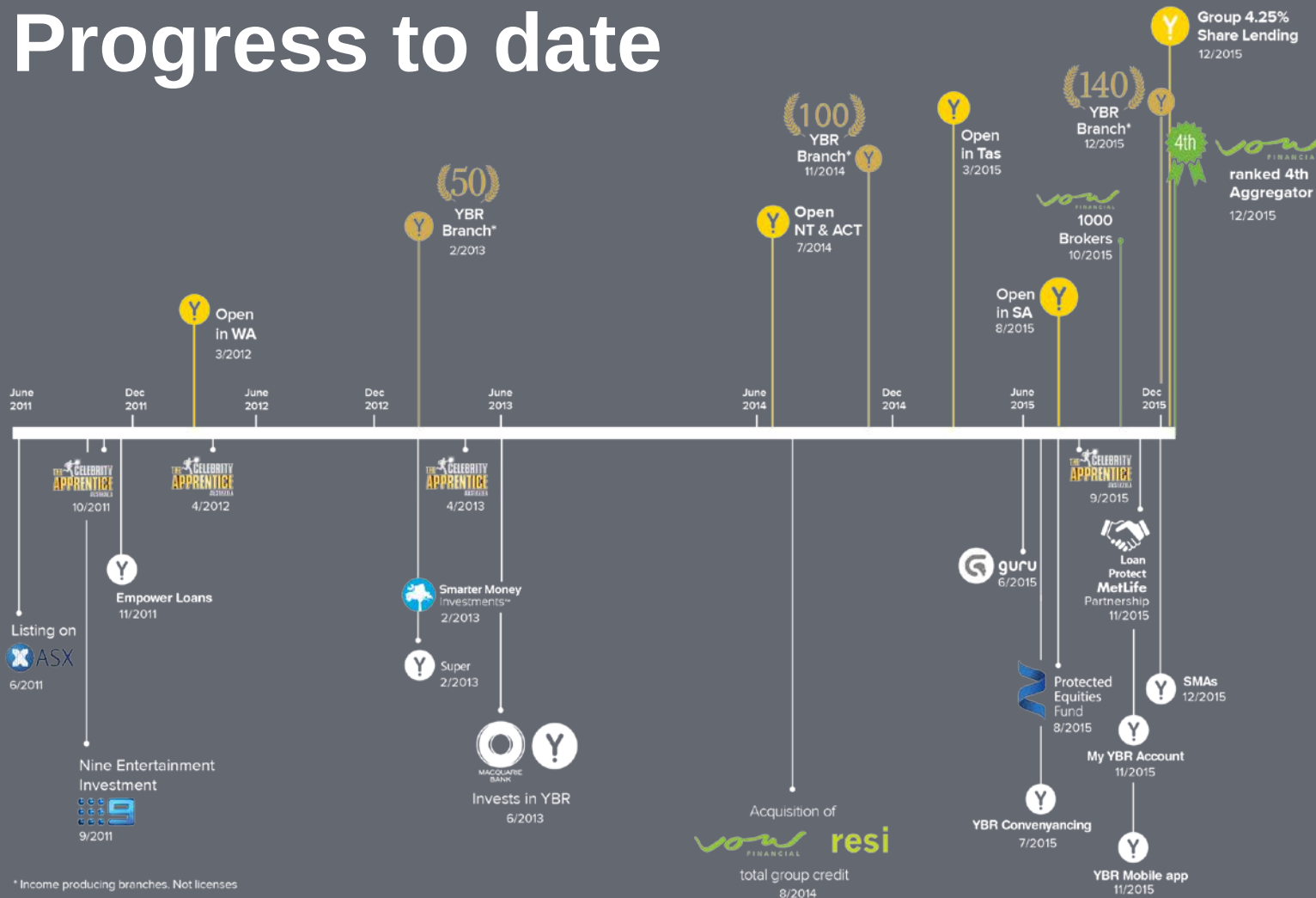
Vision



Yellow Brick Road aims to become Australia's leading non-bank financial services company by 2020 through:

- **Lending** activity that provides scale – with over \$32B in loans under management to date, we are pursuing **a \$100billion loan book (~5% mkt)**
- **Wealth** activity that provides margin. We're targeting **wealth penetration of 30%**, predominantly through cross-sell
- **Distribution Network** of local business owners in all communities across Australia, made up of **300 branches** and 1000 broker groups
- **Strategic partnerships** that leverage our scale to **contribute 10% of income** without the complexity or cost of vertical integration

Progress to date



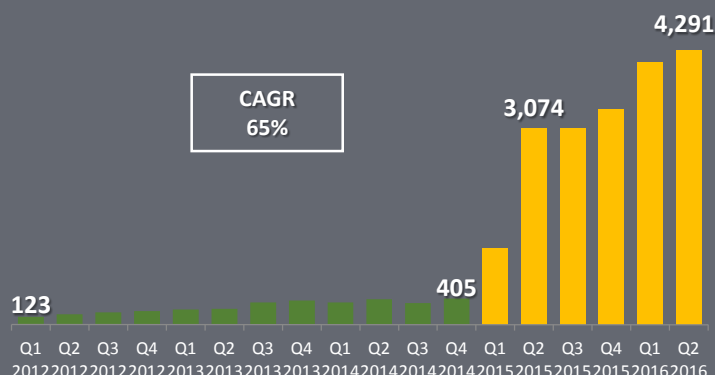
TODAY

Points of purchase	680	Underlying loan book	\$32B
Brokers	1263	Market share	4.25%
Advisers	276	Brand awareness	37%

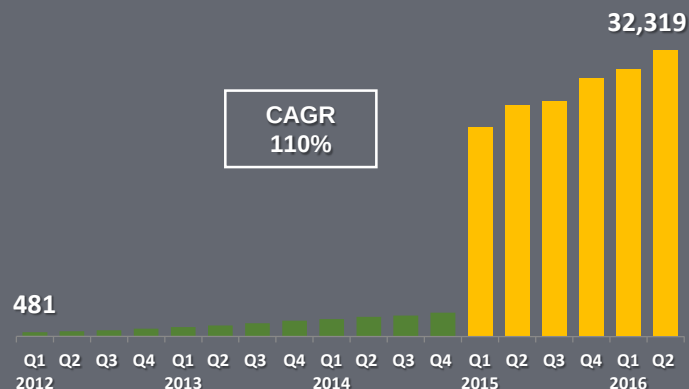
Building a strong business



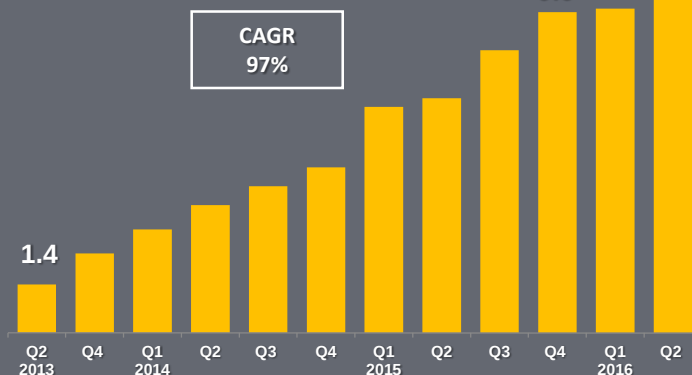
YBR (GROUP) – SETTLEMENTS (\$m)



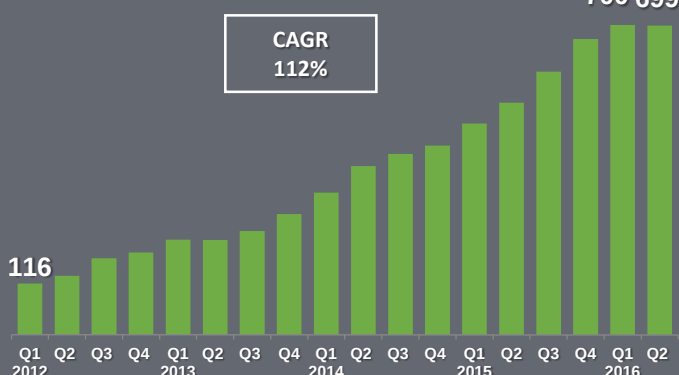
YBR (GROUP) - LOAN BOOK (\$B)



YBR (Group) PUM (\$m)



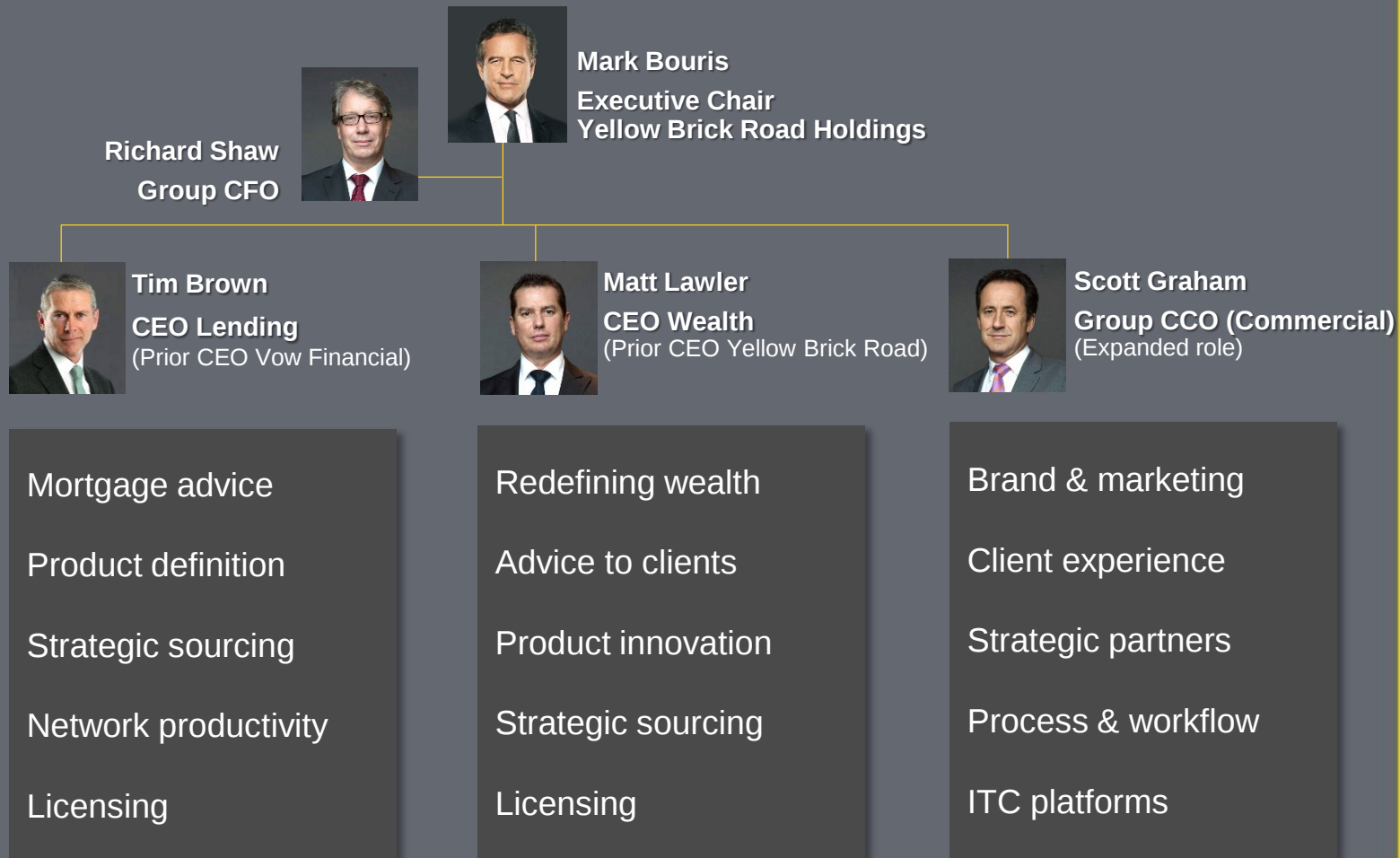
YBR (Group) FUM (\$m)



Lending growth is on track, but change is required for the business to

- Recapture wealth momentum
- Improve operational control and leverage capacity to contain costs

New Group Structure



- Improve focus on wealth and leverage YBR capability across group
- Enhance lending momentum by uniting lending operations for scale
- Create an operations centre of excellence for group-wide benefit



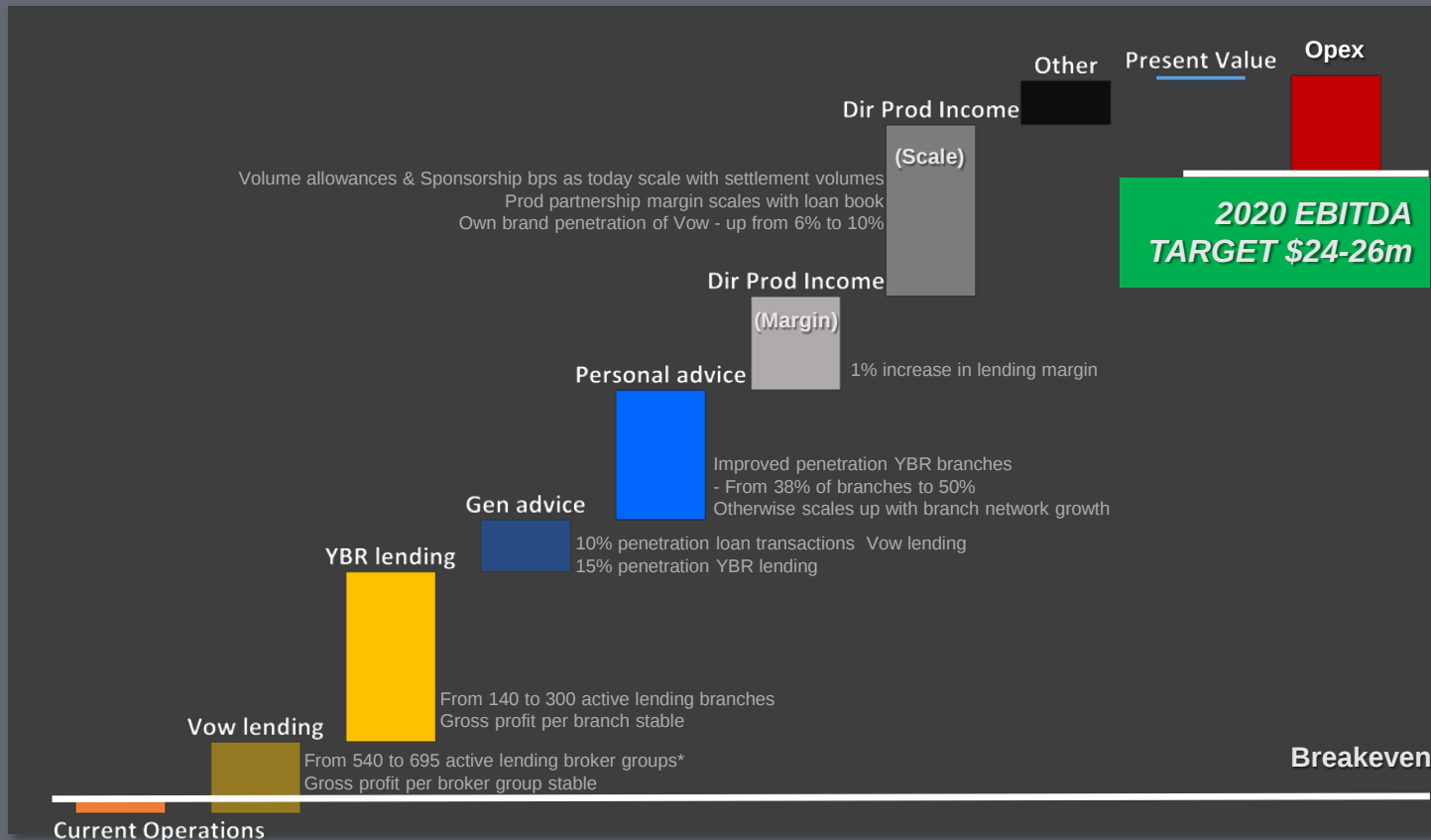
Journey to 2020 – Key Drivers

In February 2016, we are at an inflection point

- Income streams are in place and gross profit growth on track
- Costs essentially flat going forward at ~ +3-5% PA

Targeted EBITDA increases by key strategies are captured below – key themes are

- Scaling up of the network and improvements in penetration
- Only modest increases in direct product margin as scale improves influence with partners



* Broker network numbers adjusted down from 1000 target for conservatism



Results Review H1 FY16

Executive Summary

1. Group Overview
2. Lending
3. Wealth
4. Core Strategies Update
5. Outlook



Investment in brand and market share drove lending growth at 3.5x market

February restructure will ramp up wealth

STRATEGIC

Restructure of business to strengthen wealth, enhance lending momentum
New technology across wealth - robo advice, investment platform, SMAs
Major investment in brand build behind Celebrity Apprentice sponsorship
Lead engine build complete with closed loop analytics
Brand build flowed into upgrade in branch (lending) productivity of 19%

OPERATING

Share of underlying mortgage market is nudging 5% (4.55% October)
Lead flow 4x prior comparative period (PCP*) & lending pipeline up 33%
Settlements up 41% for half versus PCP, 3.5x system growth (12%)
Underlying lending book was up by 24% vs PCP, 3x system growth (8%)
19 consecutive months of double digit growth in settlements
In spite of limited focus on wealth - revenues still up 13% vs PCP for half
Accounting performance below expectation with 18% drop in revenue

FINANCIAL

Revenue 117m (+50% vs PCP normalised**)
Gross profit 17m (+18% vs PCP normalised)
Cash at bank \$6.6m
Underlying NPAT -\$3.3m
Underlying EBITDA -\$1.9M

* PCP refers to Prior Comparative Period, typically referring to H1FY15 ** Normalised means adjusting to assume 12 months ownership of and RESI versus 10 months in actuals.



1

Group Operating Performance

Performance highlights & KPIs



	1H 2015	2H 2015	1H 2016	1H16 v 1H15
Loan book (8% system growth over same period)	\$26.1b	\$29.2b	\$32.3b	24%
Settlements (12% system growth over same period)	\$6.0b	\$6.5b	\$8.4b	41%
FUM	\$524m	\$668m	\$699m	35%
Wealth Income	\$4.48	\$4.91	\$5.06	13%
Representatives - Brokers	960	1100	1263	32%
- Advisers	153	180	276	80%
- Points of purchase *	576	630	680	18%
Direct Product Income (Normalised)	\$0.9m	\$1.6m	\$2.2m	134%
Own Brand – Settlements Lending	4%	7%	6%	+%2pts
Group Mkt Share – Lending	3.41%	3.37%	4.25 %	+.84%Pts
Wealth Penetration – % YBR Clients	27.9%	26.7%	24.9%	-3%Pts
<u>Normalised:</u>				
Statutory NPAT	(\$3.1m)	\$1.5m	(\$5.9m)	(89%)
Underlying NPAT	\$2.6m	\$3.8m	(\$3.3m)	(228%)
Underlying EBITDA	\$0.3m	\$1.5m	(\$1.9m)	(635%)
Gross Margin	19%	14%	15%	-4%pt
Underlying Net Operating margin	(7%)	1%	(4%)	-3%pts
Cash to income	14%	10%	7%	-7%pts
Debt position	\$5.0m	\$5.0m	\$5.0m	0%
Net cash	\$10.6m	\$10.8m	\$6.6m	(38%)

*change of methodology: This now reports Vow broker agreements and active YBR branches. Excludes signed YBR branch agreements for upcoming branches which were previously included.

P&L



Consolidated Profit & Loss '000	1H 2015 ²	1H 2016	Var 1H	%
Revenue				
Lending				
Origination Commission Received	36,797	48,406	11,609	32%
Trailing Commission Received (Incl PV)	31,482	57,115	25,633	81%
Total Commission Received	68,279	105,521	37,242	55%
Direct Product Income	933	2,136	1,203	129%
Total Lending	69,212	107,657	38,445	55%
Wealth				
Origination Commission Received	2,188	2,512	324	15%
Trailing Commission Received	1,603	1,840	237	15%
Total Wealth	3,791	4,352	561	15%
Other	4,648	4,159	(489)	(11%)
Total Revenue incl PV	77,651	116,168	38,517	50%
Gross Profit				
Total Lending	9,028	11,958	2,930	32%
Total Wealth	1,157	1,244	87	8%
Total Other	4,300	3,861	(439)	(10%)
Gross Profit	14,486	17,063	2,577	18%
Operating Costs¹	20,814	23,009	(2,195)	(11%)
Net Profit before Income Tax	(6,328)	(5,945)	(385)	6%
Underlying EBITDA	366	(1,959)	(2,325)	(635%)
Underlying NPAT	2,620	(3,352)	(5,972)	(228%)

1: Run off assumptions used in valuing the Company's underlying loan book were revised to reflect changes in market trends. This resulted in a \$26.4m reduction in the value of trail income receivable offset by a \$24.6m reduction in the value of trail commission payable. The net impact is \$1.8m - is included as part of Operating Cost 2: 1H 2015 normalised for 2 months of VOW and RESI pre-acquisition results



Balance Sheet

Balance Sheet	June-15	Dec-15
Cash	10,784	6,607
Goodwill (Acquired Businesses)	36,747	36,141
Prepaid Advertising	2,500	1,647
Total Debt	(5,000)	(5,000)
Trail commission receivable (Loan Book value)	36,733	38,049
Deferred tax	(3,598)	(1,706)
Other	1,754	441
Net Assets	79,920	76,179
Cash and undrawn facilities	18,283	13,507

Cash Flow

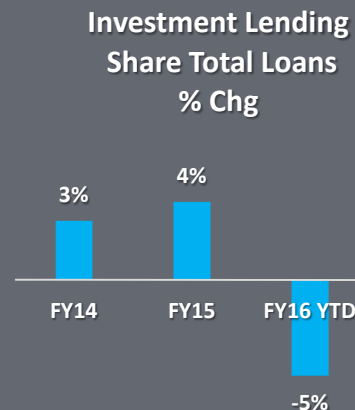
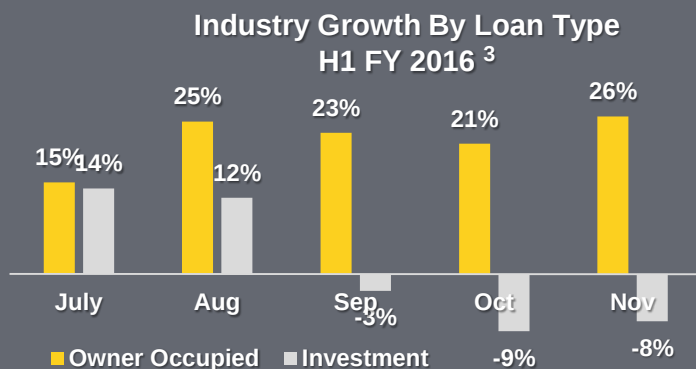


Consolidated	Dec-14	Dec-15
	\$'000	\$'000
Net cash used in operating activities	(\$3,758)	(\$3,247)
Net cash used in investing activities	(\$37,367)	(\$1,245)
Net cash from financing activities	\$39,643	\$316
Net decrease in cash and cash equivalents	(\$1,482)	(\$4,176)
Cash & cash equivalents at start of period	\$12,114	\$10,784
Cash and cash equivalents at end of period	10,632	6,607

2

Lending Review

Home Loans – Macro Factors



- **Industry settlements grew 12% for H1FY16, vs PCP stimulated by**
 - RBA rate reductions of 50bps in H215, flowing into strong owner occupied lending which was up 22% vs PCP
 - Strong housing growth in Sydney and Melbourne property markets, where YBR Group well represented
- **APRA action to slow investment /interest only lending had a strong impact on market and Group mix**
 - Industry's investment lending growth held to a paltry 1% vs PCP, down from 33% growth in H1FY15
 - The Group's (mostly Vow's) share of new business given to these loan types halved over the period
- **Vow's strong representation in Chinese community reduced investment lending pressure**
 - Overseas borrowers not impacted by APRA changes
 - Falling Australian dollar and domestic pressures drove ongoing Chinese investment in Australian property
- **Broker share topped 50%¹, MFAA predicts Intermediary market share growth of 60% in next 3 years**
 - Consumer frustration with banks bubbles to surface whenever banks seen acting in own interest²

1. Broker marketing share in Q2 was 51% - MFAA / Comparator monthly market share analysis
 2. Bank customer satisfaction declines in Dec quarter in face of out of cycle rate increases
 3. Australian Bureau of Statistics

Lending strategy

Target: \$100B underlying mortgage book by 2020



How does your home loan compare?

Switch to our brand new 4.07% p.a. comparison rate* for the Rate Smasher Home Loan and you could save tens of thousands of dollars over the life of your loan.

Find out more

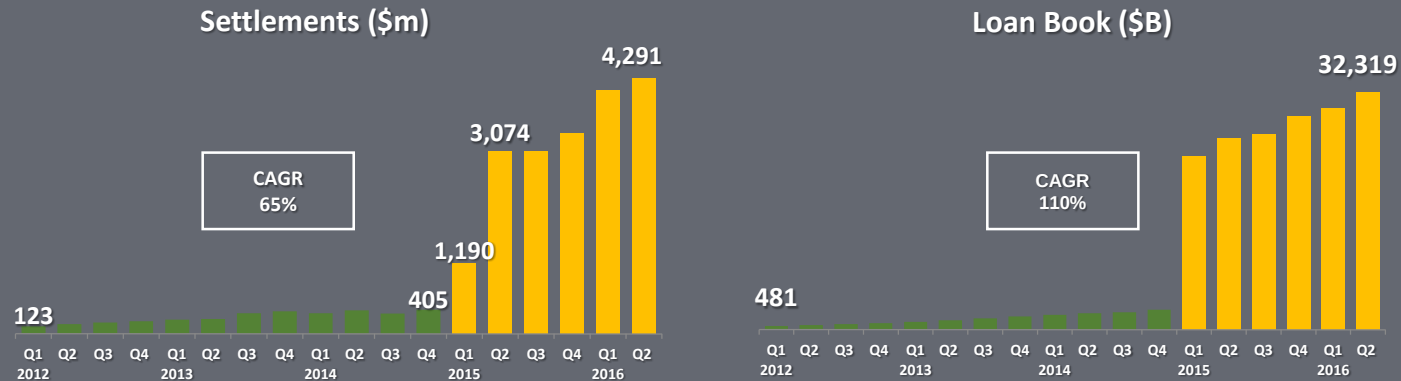


4.07%
p.a.

Comparison rate* Rate Smasher Home Loan

- **Drive YBR lending growth through ongoing branding & lead generation program**
 - Leads to develop newer branches & balance local opportunities across network
 - Local area marketing platform to enable branches to develop opportunities locally
- **Maintain growth in points of distribution**
 - Increase Vow network by 50% over 3 years > acquire 9-10 new groups monthly
 - Grow YBR branches to 300 over 3 years > adding 4-5 new franchisees monthly
 - Focus on filling YBR's priority regional and high value metropolitan areas & remove bottom 10%
- **Accelerate ramp up of new franchisees**
 - Recruiting more experienced brokers > doubling year 1 revenue in new branches
 - New mentor program and extended induction for recruits lacking lending experience
- **Lift margin through investment in own brand products**
 - New franchisees without lending experience to intern with Group Lending Credit Team
 - Accelerate development of new products and target white labels for top 10 Vow brokers
- **Leverage YBR brand for a digital direct offer for self-directed consumers**

Lending – Performance Review



	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Underlying loan book	\$26.1b	\$29.2b	\$32.3b	24%	▲
Settlements	\$6.0b	\$6.5b	\$8.4b	40%	▲
Applications	\$5.9b	\$9.7b	\$13.2b	124%	▲
Pipeline – Value	\$1.9b	\$2.1b	\$2.5b	32%	▲
Credit Representatives – Authorised	960	1100	1263	32%	▲
Credit Representatives – Productivity	\$6m	\$6m	\$7m	17%	▲

- Settlements up 40% for half versus PCP
- Vow recruited 400 new brokers over last 12 months
- Comparator shows YBR Group #4 Aggregator in December



Lending – Performance Indicators

	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Group Mkt Share	3%	3%	4%	+ .84%Pts	▲
Own Brand Share	4%	7%	6%	+ 2%Pts	▲
Loan Mix - Interest only/ P&I	35/ 65%	12/ 88%	18/ 82%	- 17%Pts	
- Investor/ Owner Occ	34/ 66%	13/ 87%	16/ 84%	- 16%Pts	
<u>Normalised:</u>					
Origination revenue	\$36.8m	\$38.7m	\$48.4m	30%	▲
Trail revenue	\$37.5m	\$57.5m	\$57.0m	52%	▲
Weighted average gross trail rate	17.6bps	17.4bps	17.4bps	0.2%bps	▼
Weighted average gross upfront rate	64.4bps	65.8bps	64.6bps	0.2%bps	▲
Net core (origination + trail)	\$6.9m	\$7.3m	\$10.3m	49%	▲

- Mortgage market share nudging 5% (4.55% October)
- Healthy growth in own brand share by 2%pts to 6% of total settlements
- APRA action impacted mix of Interest Only and Investment loans
- Revenue up strongly behind settlement volumes – including trail increase of 52%



3

Wealth Review



Wealth – Macro Factors

Lock in a fixed rate for greater certainty

Savings to suit your calendar, whether it's over a few months or a few years.



Apply Now



- **Move to self funded retirement causing consumers to engage younger**
 - Particularly YBR's young family client demographic
- **More rapid uptake of scaled advice than expected**
 - Driven by customer price sensitivity and insurgent tech plays
 - As a pioneer in this space, YBR will be a beneficiary
- **Industry continues adapting to regulatory change (FOFA / LIFR reform)**
 - YBR less exposed than incumbents
- **Uncertainty around new educational requirements for current advisers**
 - YBR adviser body younger and less affected by this than traditional wealth groups
- **Mooted changes to super tax breaks for high net worth clients**
 - Will have little impact on YBR given client demographics
- **Volatility in investment markets is affecting FUM in the short term**
 - However we expect this to improve as we move through the investment cycle

Wealth Strategy

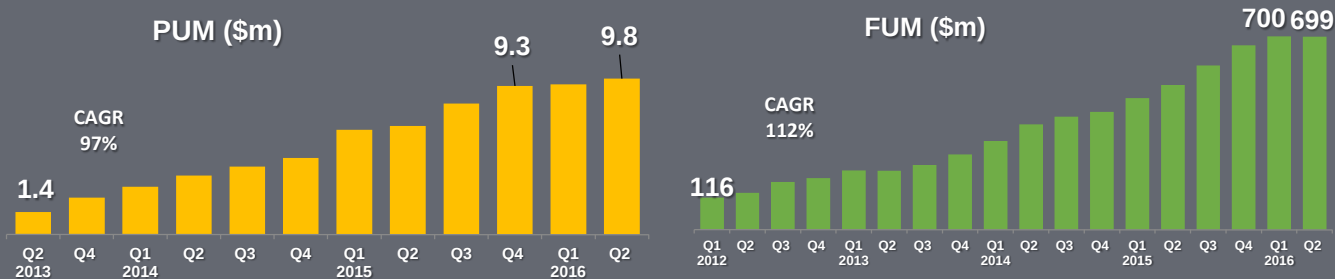
Target revenue 30% 2020 (2013 was 30% for YBR)



- **Embed wealth into mortgage transactions to initiate wealth journey earlier**
 - Every branch and broker in YBR group authorised to give scaled (general) advice
 - Develop suitable suite of complementary wealth products
 - Leverage scale for share of product margin & strategically source expert partners
- **Extend dedicated full service wealth advice capability to all branches**
 - Dedicated ARs are the engine room for wealth & will be extended to all branches
 - Extend to select Vow broker partners with compatible business models
 - Full suite of third party products complemented by affordable own brand alternative
- **Complete wealth product set matched to our demographic**
 - Simple solutions that are affordable and easy to implement
 - Satisfying all core needs – protection, super, cash-flow, investment
- **Innovation which challenges and disrupts traditional planning model**
 - Guru robo advice engagement tool – the first of several Fintech launches planned
 - YBR has established a Fintech Innovation Hub to foster new ideas
- **Leverage YBR brand for a digital direct offer for self directed consumers**



Wealth – Performance Review



	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Investments – FUM*	\$524m	\$668m	\$699m	33%	▲
Life insurance – PUM**	\$6.8m	\$9.3m	\$9.8m	44%	▲
General – Gross Premiums	\$5.21m	\$5.63m	\$6.1m	17%	▲
Wealth Revenue	\$4.48m	\$4.91m	\$5.06m	13%	▲
AR General #	37	53	155	319%	▲
AR Personal #	116	127	121	4%	▲

- **Major push for mortgage market share took resources and focus from wealth**
 - Wealth Management revenue still up 13% but less robust than trend
- **Investment FUM – Solid growth of 33% from inflows despite volatile investment markets**
- **Personal Advice Representatives growth constrained but stepping up**
 - New wealth strategy calls for dedicated Personal Advice reps available to all branches
- **Most Credit Representatives are being accredited with “simple” advice capability**
 - To allow provision of aligned wealth products within the mortgage transaction



Wealth – Performance Indicators

	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Wealth Penetration – % Clients	27.9%	26.70%	24.90%	-3%pts	▼
– % GProfit	9%	8%	8%	-1%pt	▼
SOA #	500	616	557	11%	▲
Life Insurance Policies	997	852	1007	1%	

- **Major push for mortgage market share took resources and focus from wealth**
 - Comparison with PCP influences by out-performance of lending
 - Wealth penetration of clients still strong at 25%
 - In spite of challenges, SOA activity building momentum into a seasonally strong 2H
- **Integration of wealth into lending transactions well underway**
 - Simple General Insurance and Life Insurance now on broker IT platforms
 - Training and accreditations now complete in YBR
 - Will train vast majority of Vow brokers by EOFY
- **General Insurance via Branch and Broker network on the increase**
- **Restructure of Group by business line to drive renewed focus on wealth from 2H onwards**



4

Core strategy update

Distribution – Key Indicators



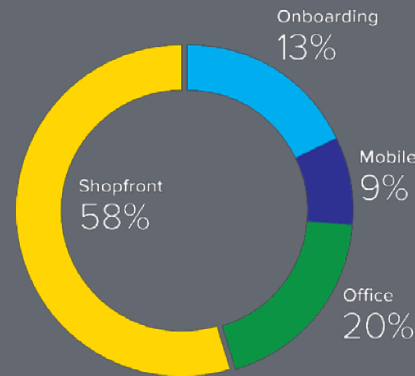
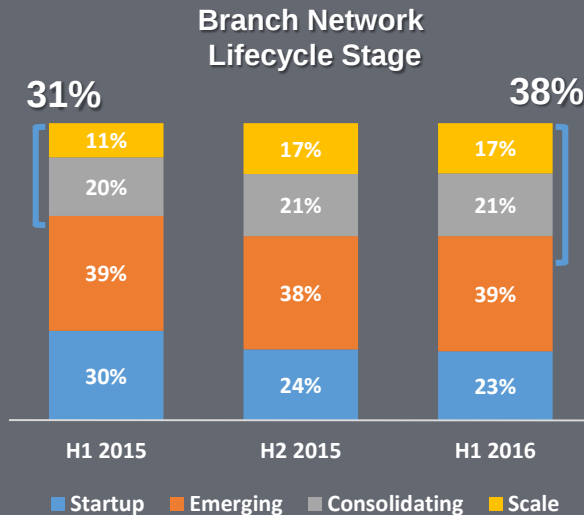
	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Points of Sale*	576	630	680	18%	▲
Representatives – Credit only	282	967	1085	285%	▲
– Cred & Pers. Advice	78	80	81	4%	
– Cred & Gen. Advice	37	53	155	319%	▲
– Advice only	38	54	55	45%	▲
Lending (Settlement) Productivity	\$10.33m	\$10.25m	\$12.32m	19%	▲
Wealth (Revenue) Productivity	\$59,733	\$56,437	\$53,263	-11%	▼

- Steady progress in sign-up of Vow broker groups
- YBR branch network growth accelerating around new territory assessment
- Wealth focus on general advice to support rollout of “Loan Protect” life insurance
- Settlement productivity showing steady increase in line with expectations
- Wealth productivity affected by dual accredited advisers’ focus on lending share
- YBR network priority now on stand alone personal advice (see wealth strategy)

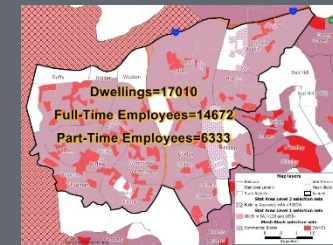
* Change of methodology. Now reports, Vow broker agreements and active YBR branches. Excludes signed YBR branch agreements for upcoming branches which were previously included.



Distribution - YBR Branch Status



Branch Territory Modelling



- **Yellow Brick Road franchise build is 50% complete**
 - Remaining territories are identified and being recruited
 - Priority on higher yield territories in metro and regional hubs
- **Change in recruitment is accelerating ramp up of branches**
 - Recruiting existing lenders for new territories - viable in 6 vs 18 mths
 - Recruit and centrally develop new-to-lending to scale up existing branches
- **Most “office” branches to be transitioned to street-front**

Brand – Key Indicators



	1H 2015	2H 2015	1H 2016	1H16 v 1H15	
Media spend	\$1,049,253	\$1,080,467	\$2,998,642	186%	▲
Weeks of campaign support	6	8	18	200%	▲
Brand awareness	28%	34%	37%	+9%pts	▲
Leads vs. prior period	193%	139%	245%	+52%pts	▲
Lending pipeline	\$1.9b	\$2.1b	\$2.5b	32%	▲

- **Strategic investment in brand behind Celebrity Apprentice (CA) IV sponsorship**
- **Focus on lead generation with modest increase in awareness**
- **Awareness is enduring – we are still getting enquiries years after earlier series of CA**
- **Lead generation is up – particularly in Q2 (+299%) on strength of three key factors**
 - Media spend / CAIV consumer promotion offering \$50,000 prize
 - Sharp 3.92% comparison rate ~ 30bps below key proxies
 - All new website & content improving conversion of visits to leads
- **Lead quality demonstrated in significant lift in pipeline in Q2 (+52%)**
- **Lead management technology being upgraded to create closed loop**
 - Will allow better tracking of conversion and performance management

Diversification – Key Indicators



	1H 2015	2H 2015	1H 2016	1H16 v 1H15
Personal wealth as % of Group income	4.86%	4.08%	3.92%	-.94%pts
Commercial lending as % lending settlements	5.83%	4.94%	3.71%	-2.12%pts
Lending adjacencies as % lending income	1.26%	1.11%	1.33%	+.07%pts
Value added services (VAS) - penetration broker groups	24.3%	24.6%	24.6%	+.32%pts

- **The following new products were launched enhancing diversification**

- New Investment Platform – My YBR, plus range of 8 SMAs
- Protected Equities Fund – JV with NWQ Capital Management
- Lending adjacencies – Loan Protect (JV with Metlife), YBR Conveyancing
- Guru – new robo advice engagement tool – rolled out across YBR
- Non-conforming home loans – partnership with Pepper Home Loans

- **As of Q2, wealth is receiving ongoing marketing support**

- **Countercyclical play in commercial lending**

- **Low level of penetration of VAS shows great potential upside**

- High margin marketing services model to be expanded
- Investment in new technology for YBR network to be leveraged across VOW

5

Outlook



Headwinds



- Potential for higher capital levy on some investment loans for 2nd tier lenders¹
- Potential that Sydney and Melbourne property market activity has peaked ²
- ASIC recently announced a review into Mortgage Broking – scope being determined

Tailwinds



- High chance of ABS rate reductions (~50bps)³, which typically stimulates refinance activity
- Sentiment trending upward since leadership change – WBC Index +4PTS to 101 (Feb16)²
- Mortgage market momentum is strong – hit an eight-year high in Dec 2015 ⁵
- Aging population continues to provide demand for YBR wealth
- New APRA risk based capital provisions mean a more level playing field for lenders

1. Basel Committee on Banking Supervision – Consultation Paper – Dec 2015
2. Macquarie Bank “Australian & New Zealand Economic Outlook” - February 2016
3. Business Insider Feb 18, 2016 “Goldman – 2RBA rate cuts are coming”
4. Westpac-Melbourne Institute Consumer Sentiment Index for Australia
5. Source ABS & Yourmortgage.com.au [link](#)
6. Source: World Bank Commodity Forecast Price Data, January 2016



Next 18 Months

Drive through inflection point to deliver revenue surge with absolute cost discipline



Key EBITDA Drivers

- Maintain spending discipline
- Accelerated YBR network growth
- Double branches providing personal advice
- Maintain lending growth momentum
- Increase own product penetration of Vow network
- General advice revenue penetration of home loans

Target Q4 FY2017

+ 3-5% current levels
+ 30-40 branches net
From 53 to 100
3 times system growth
From 5.3% to 9%
YBR 7% / Vow 3%

END