



ASX/MEDIA RELEASE

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Firstfolio reports FY14 Financial Results in line with guidance

Firstfolio Limited (ASX:FFF) today reported its financial results for the year ended 30 June 2014, in line with guidance. Features of the 2014 full year result include:

Operations:

- Mortgage settlement volumes increased 15.0% over the prior year to \$3.2 billion
- Mortgage aggregation and broking volumes up 23.1%
- Revenue decreased 4.2% to \$78.6 million, primarily driven by wholesale business
- Operating EBITDA¹ of \$5.4 million, down 47.4% on FY13
- Cash operating EBITDA² of \$11.2 million, in line with guidance
- Underlying cash net profit after tax³ \$2.5 million, compared to \$6.0 million in FY13
- Net loss after tax of \$4.1 million compared to FY13 profit of \$1.3 million

Balance sheet:

- Successful refinancing of senior debt to extend maturity
- Net debt of \$56.3 million, a reduction of \$5.7 million over the year
- Loan book of \$18.2 billion at year-end, run-off of 3.7%

Commenting on the results, Firstfolio Chairman Mr Eric Dodd said, "Our results for the financial year reflect lower margins associated with ongoing competitive conditions in the Australian mortgage market, which significantly impacted our wholesale business, and a number of one-off items in our results.

"However, our accounting result does not reflect the strong underlying cash flow performance of the Company. Our \$18 billion loan book continues to perform ahead of expectations and is anticipated to remain a strong cash contributor to the business.

"During the year we addressed strategic challenges including changes in leadership; the termination of a significant equity transaction; refinancing of a senior debt facility; and ongoing negotiation and finalisation of a renewed warehouse facility. While these matters contributed to additional one-off costs and adversely impacted the confidence of some business partners in dealing with the Company, pleasingly, these short term issues are now resolved.

"In FY14, Firstfolio realised further benefits from its multi-year cost reduction program. Savings realised in lower employment, contractor, professional fees and occupancy expenses, enabled the Company to make further investments in areas such as IT systems, product development and marketing to drive revenue growth.

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1. Operating EBITDA represents operating Earnings Before Interest, Tax, Depreciation and Amortisation, and is adjusted for abnormal items including write-back for deferred consideration, share based payments, acquisition and restructuring costs
 2. Cash operating EBITDA represents operating EBITDA adjusted for the movement in the NPV net asset
 3. Underlying cash net profit after income tax represents underlying profit before income tax offset by income tax expense or benefit as outlined in Table 2 of the 2014 Director's Report

“Together, the resolution of the debt refinancing and our successful cost reduction program, place the Company in an improved position to take advantage of growth opportunities as they arise. Specifically, the resolution of debt financing provides greater flexibility to pursue capital raisings to provide additional working capital to fund growth and further reduce gearing. Management is now focussed on capitalising on Firstfolio’s existing capabilities by extracting operational efficiencies, responding to new opportunities for organic growth, and continuing the effective control of costs.

Settlement volumes in the mortgage origination business grew 15.0% over the prior year, primarily from a 23.1% increase in aggregation and broking volumes over the prior year, partly offset by a reduction in wholesale mortgage settlements. While growth in aggregation and broking settlements were strong, these loans carry a lower margin than wholesale loan settlements, resulting in a net adverse change in margins.

Firstfolio’s loan book declined to \$18.2 billion, with 60% of the \$0.7 billion run-off attributable to the active loan book, and 40% to the inactive loan book. The active loan book of \$17.4 billion now comprises 96% of the total book, and although the rate of run-off has slowed, run-off exceeded new loan origination. Reflecting the mix in settlements, wholesale loans now represent 19.5% of the loan book; aggregation and broking loans, 79.6%; and Firstfolio Capital contributed the remaining 0.9%.

Reported EBITDA declined to \$2.7 million from \$9.1 million, reflecting the impact of the recognition of capital raising costs of \$1.9 million; a \$1.8 million decrease in net interest margin earned by Firstfolio Capital; an increase in the negative NPV movement of \$1.0 million over FY13; and other decreases in gross margin of \$2.7 million, offset by cost savings and movements in other income of \$1.0 million.

Operating EBITDA, which excludes one-offs, declined \$4.8 million or 47.4% to \$5.4 million. The operating EBITDA margin on revenue declined from 12.4% to 6.8%. Cash operating EBITDA was \$11.2 million, down 25.7% on pcg and in line with guidance.

Continued strong operating cash flows enabled Firstfolio to further reduce net borrowings to \$56.3 million at 30 June 2014, down \$5.7 million over the prior year, which along with improved cost of funds, lowered interest expense to \$4.3 million.

Mr Dodd said, “Despite the significant challenges faced by the Company during the year, Firstfolio finished the year in a much stronger position to benefit from a pick up in the mortgage market.

“We remain one of Australia’s largest independent platforms for the delivery of financial products and services; eChoice continues to be a strongly recognised brand and will continue to explore opportunities to develop new businesses, working with reputable industry partners; and Folio business has been restructured and is actively focussing on the delivery of new competitive products to satisfy demands of niche markets.



“In the coming year, we expect to benefit from ongoing improvements in settlement volumes across the Australian market. However, the market will remain highly competitive with pressure on margins continuing. In this environment, Firstfolio’s settlement volumes will continue to be weighted towards the lower margin aggregation and broking business, with wholesale settlement volumes subdued.”

Firstfolio’s Appendix 4E statement and full details of the FY14 financial results are available from the Company’s website: www.firstfolio.com.au

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About Firstfolio Limited

Firstfolio Limited (ASX: FFF) is a mortgages and financial services distribution business which offers a diversified range of mortgage solutions through its two key businesses; eChoice and Folio Mortgage & Finance. Firstfolio also offers its customers an alternative funding option through Firstfolio Capital.

eChoice is one of Australia’s most recognised online mortgage brands, using industry leading technology to provide customers with mortgage and financial product options through convenient online portals. Folio Mortgage & Finance provides mortgage products, mortgage processing and management services, personal loan products, commercial loans, as well as equipment finance and leasing. Products are provided via a national network of mortgage brokers, affiliates and industry partners.

Loans under management (LUM) were \$18.2 billion at 30 June 2014 – making it one of Australia’s largest independent platforms for the delivery of financial products and services.