Mortgage Choice Ltd
FY18 Full Year results presentation

Presented by Susan Mitchell (CEO) and John Stevenson (Acting CFO)

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1. Executive summary

Building the platform for growth and long term sustainability

Financial results

- Cash NPAT $23.4m up by 3.3%
- IFRS underlying NPAT $25.6m, $7.1m adjustment for changes in run-off and other assumptions along with a negative $28.5m one-off NPV trail adjustment due to model changes, resulting in $4.2m IFRS NPAT
- Settlements decreased to $11.5b
- Loan book grew to $54.6b
- Financial Planning gross revenue grew by 10.4% and net profit grew by 116.4%
- Final dividend of 9c per share, taking the full year dividend to 18c per share fully franked, up half a cent year-on-year

Priorities for FY19

In July 2018, the Company announced it had commenced a company wide change program to provide a platform for growth and long term sustainability. The first priority was the roll out of the new broker remuneration model. The business will focus on the following initiatives in FY19.

Remuneration models

- Embed the new broker remuneration model. 80% franchisees have already opted in. It is expected that all will opt in by end of FY19
- Review of adviser remuneration underway

Brand and customer experience

- Shift focus on marketing spend from pure lead generation to brand awareness and engagement to ensure long term brand health
- Improve the online customer experience to create advocacy

Operational efficiencies

- Departmental review of processes to increase efficiency whilst improving the support experience for brokers and advisers
- Roll out of a new Broker Platform, new core systems for financial planning and an online Help Centre to enable franchisees to self-serve for support more effectively

Recruitment

- Position Mortgage Choice as an aggregator of choice for potential franchisees and loan writers. New broker remuneration model and best-of-breed loan origination platforms
- Recruit stand alone financial planning franchise owners

FY18 performance highlights

		FY18	FY17	FY18 vs FY17	
NPAT	- Cash	23.4 m	22.6 m	3.3%	▲
	- IFRS	25.6 m	21.0 m	21.9%	
	Adjustments to NPV for run-off and other assumptions	7.1 m	1.2 m		
	Adjustments to NPV due to model changes	(28.5) m	- m		
	Statutory result	4.2 m	22.2 m	(80.9%)	▼
Mortgage broking	- Loan book	54.6 b	53.4 b	2.3%	▲
	- Settlements	11.5 b	12.3 b	(7.0%)	▼
Financial Planning	- FUA	733.5 m	532.4 m	37.8%	▲
	- PIF	27.8 m	24.2 m	15.1%	▲
	- FP gross revenue	11.3 m	10.2 m	10.4%	▲
EPS	- Cash	18.7 c	18.1 c	3.3%	▲
	- IFRS	3.4 c	17.8 c	(80.9%)	▼
DPS	- Ordinary	18.0 c	17.5 c	2.9%	▲

2. Financial performance and underlying drivers

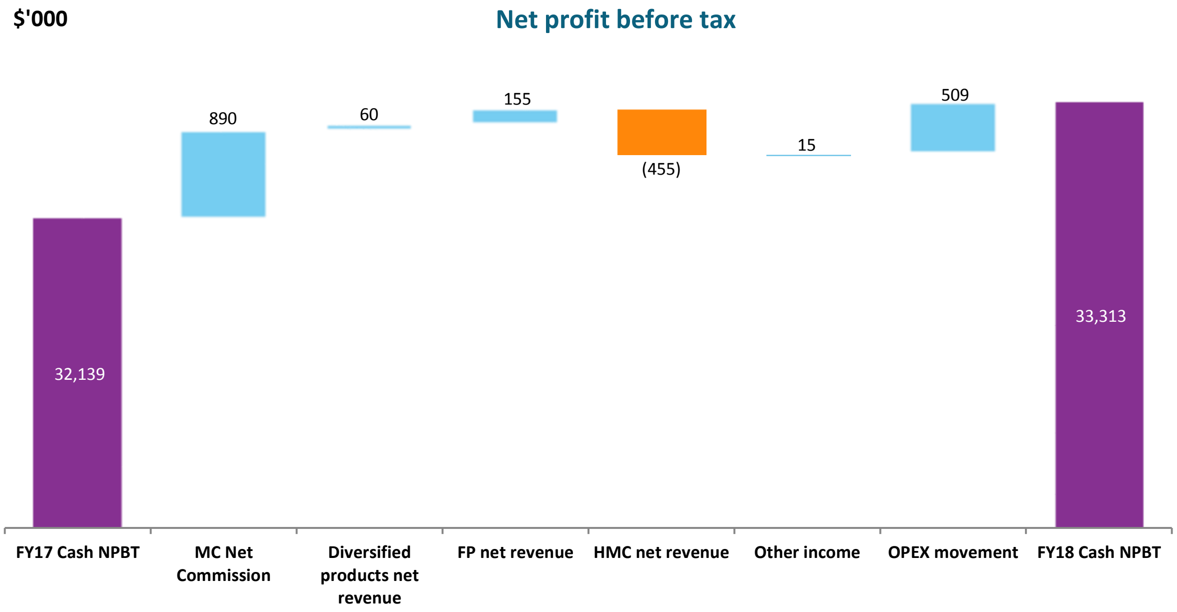
Profit and loss statement

$m	FY18 Cash^	FY17 Cash^*	% change	FY18 IFRS	FY17 IFRS*	% change
Origination commission received	70.02	75.86	(7.7%)	70.02	75.86	(7.7%)
Trailing commission received	98.46	96.69	1.8%	124.75	102.79	21.4%
	168.47	172.55	(2.4%)	194.76	178.65	9.0%
Origination commission paid	48.84	54.61	(10.6%)	48.84	54.61	(10.6%)
Trailing commission paid	59.91	59.10	1.4%	73.05	63.78	14.5%
	108.75	113.71	(4.4%)	121.89	118.39	3.0%
Net core commission	**59.72**	**58.83**	**1.5%**	**72.87**	**60.26**	**20.9%**
Diversified products net revenue	1.75	1.69	3.5%	1.75	1.69	3.5%
Financial Planning net revenue	2.23	2.07	7.5%	2.23	2.07	7.5%
HMC net revenue	0.36	0.81	(56.1%)	0.13	-	100.0%
Other income	4.36	4.35	0.3%	4.36	4.35	0.3%
Gross profit	**68.42**	**67.76**	**1.0%**	**81.35**	**68.37**	**19.0%**
Operating expenses	35.11	35.62	(1.4%)	35.11	35.62	(1.4%)
Share based remuneration	-	-	-	(0.28)	0.88	(131.6%)
Net profit before tax	33.31	32.14	3.7%	46.51	31.87	46.0%
Balance sheet adjustment - NPV Future trail payable				(40.67)	-	-
Net profit after tax	**23.38**	**22.63**	**3.3%**	**4.24**	**22.18**	**(80.9%)**
EPS (cps)	18.7	18.1	3.3%	3.4	17.8	(80.9%)
DPS (cps)	18.0	17.5	2.9%	18.0	17.5	2.9%

- One-off IFRS adjustment of $(28.5)m after tax, in line with the $(30.0)m after tax estimate included in the guidance provided to the market on 12th July 2018
- Changes in run-off assumptions resulting in receivables adjustment of $7.1m after tax
- One-off costs associated with structural changes are reflected in FY18 operating expenses

^ Cash is based on accruals accounting and excludes share based remuneration and the net present value of future trailing commissions receivable and payable. This is an extract from our audited accounts.
* FY17 cash and IFRS commissions received are restated due to white label margin reclassification. Refer to Appendix page 25.

Cash NPBT up year-on-year



- Cash NPBT growth of 3.7% due to net revenue increases along with reductions in OPEX in both the core broking business and financial planning advice business
- OPEX movement due to reduction in conference costs and marketing production costs

Divisional results

Divisional results

$000	FY18				FY17			
	Total	MC	FP	HMC	Total	MC	FP	HMC
Settlements		11.5b				12.3b		
Gross profit (IFRS)	40,677	38,289	2,259	129	68,369	66,177	2,192	-
Gross profit (Cash)	68,422	65,807	2,259	356	67,756	64,753	2,192	811
OPEX	(35,110)	(33,389)	(1,721)	-	(35,619)	(33,665)	(1,954)	-
EBITDA (Cash)	34,325	33,431	538	356	33,247	32,131	305	811
NPAT (IFRS)	4,238	3,786	362	90	22,177	22,036	141	-
NPAT (Cash)	23,382	22,750	383	249	22,634	21,889	177	568
YOY growth (%)	3%	4%	116%	(56%)				

- Core broking business cash NPAT up 4% with a $1m increase in gross profit against a slight decrease in OPEX
- MCFP Cash NPAT grew by 116%
- Health insurance trail from Help Me Choose (HMC) will cease in Sep18

Operating cash flow

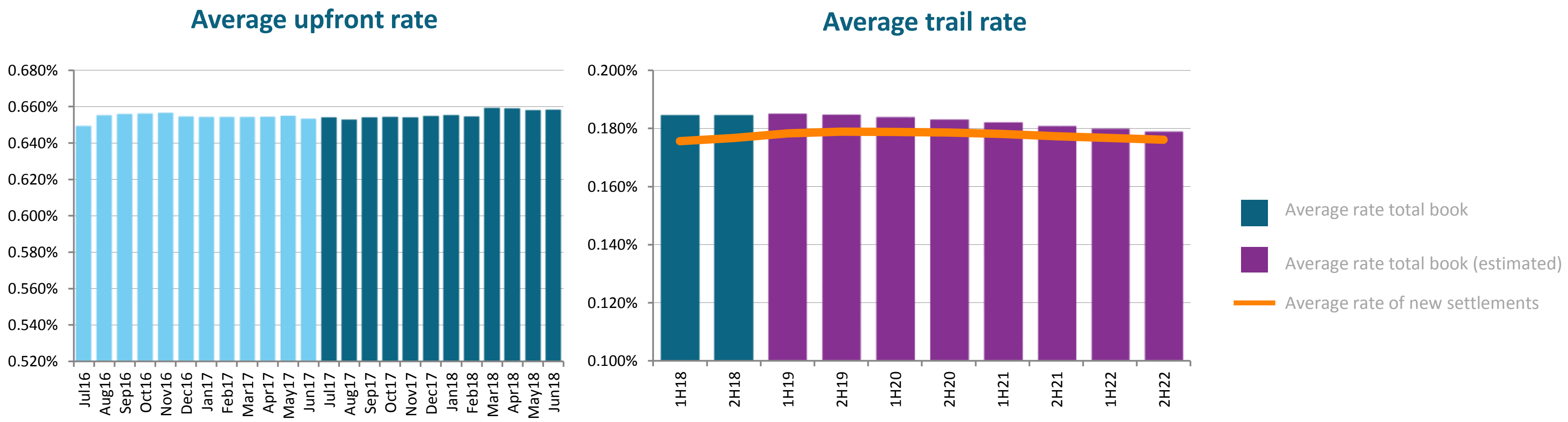
$000	FY18	FY17
Net profit before tax (cash basis)	**33,313**	**32,139**
Depreciation and amortisation	1,587	1,581
	34,900	33,720
Tax paid	(10,155)	(9,162)
Purchase of fixed assets and intangibles	(4,137)	(1,395)
Loans to franchisees	(1,502)	(1,254)
Loan book purchases	(1,095)	(205)
Other balance sheet movements	(809)	74
Cash flow before dividends	17,202	21,778
Dividends paid	(22,495)	(21,200)
Net cash movement	**(5,293)**	**578**

Mortgage Choice used cash to fund two IT investments

- $3.4m new Broker Platform
- $0.3m new website

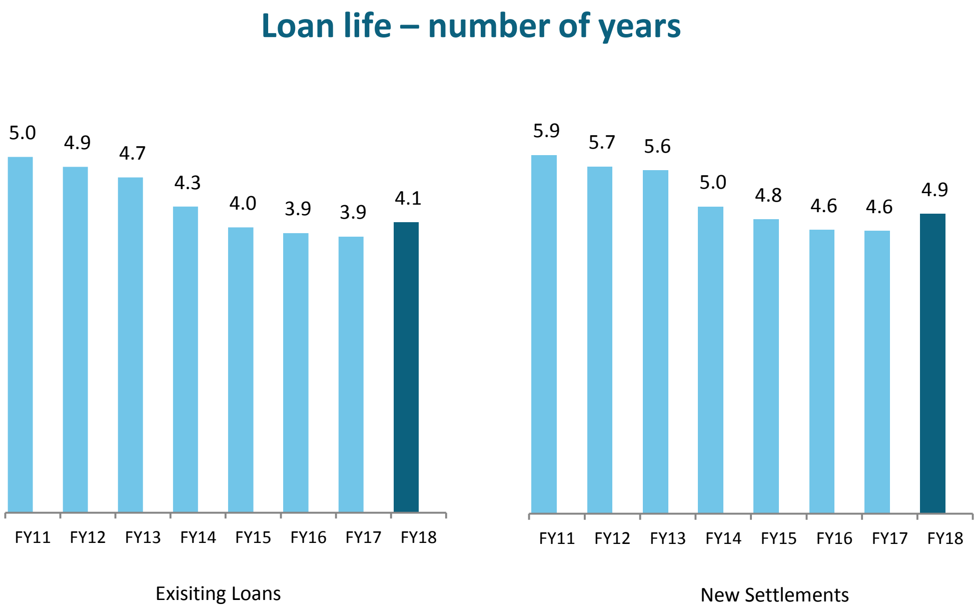
In FY19, Mortgage Choice will use an existing debt facility to fund further IT investments. This facility is currently not utilised.

Average upfront and trail commission rates



- Average upfront rate for FY18 is 0.6556%
- Average trail rate is predicted to be 0.1788% by FY22

Loan life increases for the first time in 7 years

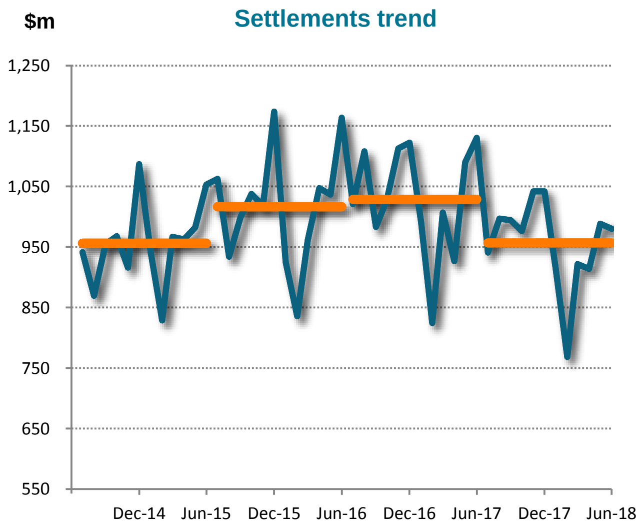


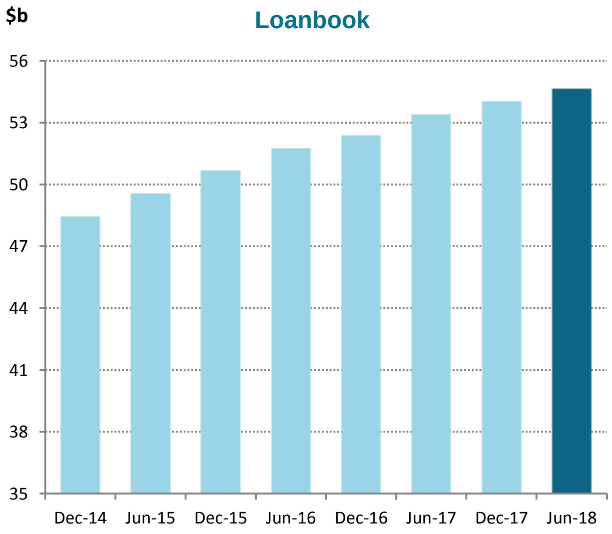
Prepared by: Deloitte Actuaries & Consultants Limited

The loan life is a projection of the future at the date of calculation. Each year's loan life is based on the experience of that year, assuming this recurs in all the years.

- 6% reduction in the run-off rate compared to FY17 due to the softening housing market and tightening lending policies

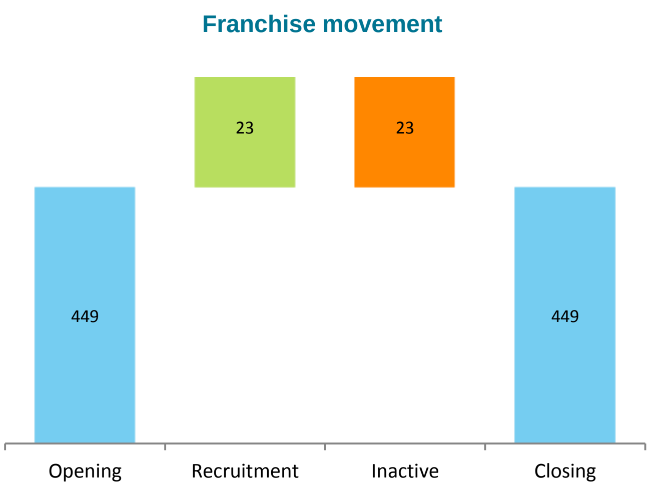
Settlements down 7%, loan book continues to grow

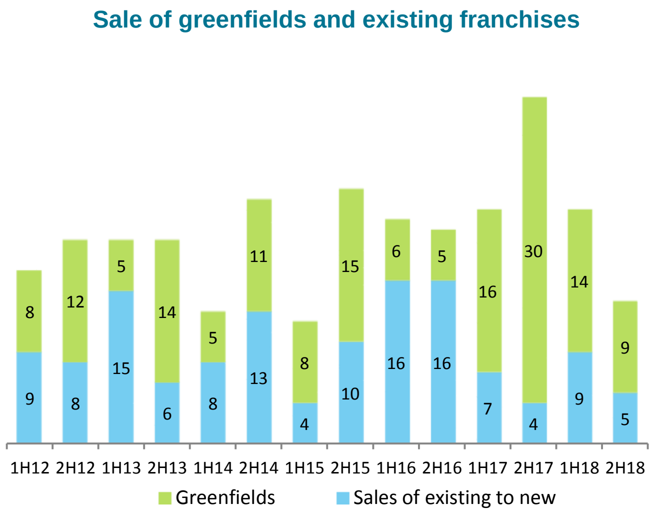




- Loan book growth of 2.3% throughout FY18
- Changes to the broker remuneration model is expected to address the fall in settlements over the medium term

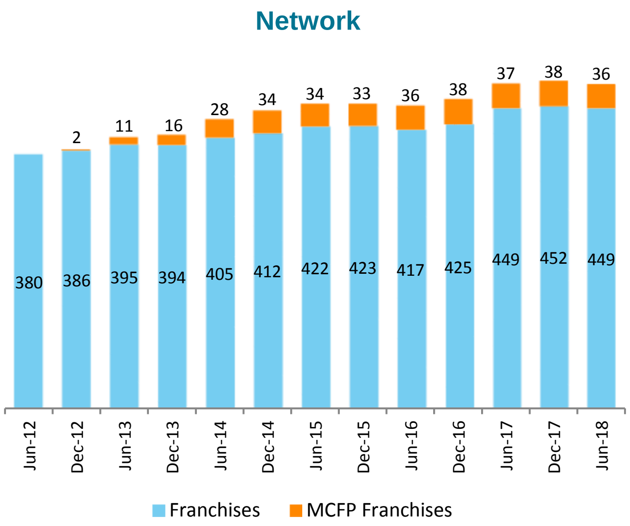
Franchise recruitment

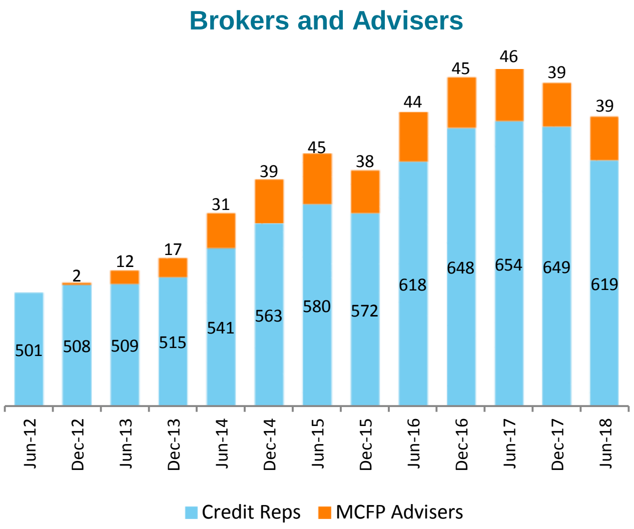




- New remuneration model geared to attract new franchisees to the Mortgage Choice network over the medium term
- Natural attrition and the retirement of franchisees
- Focus on retention of best performing franchisees

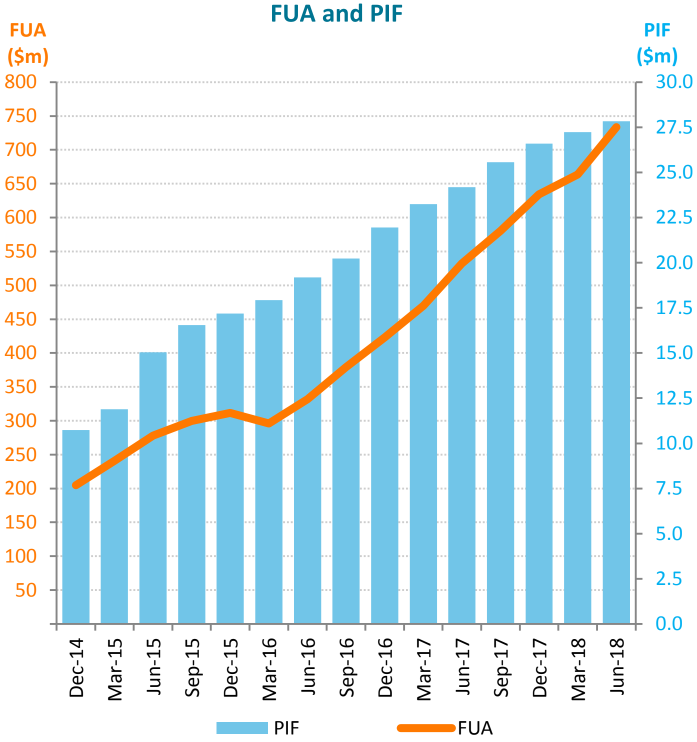
Broker and adviser network



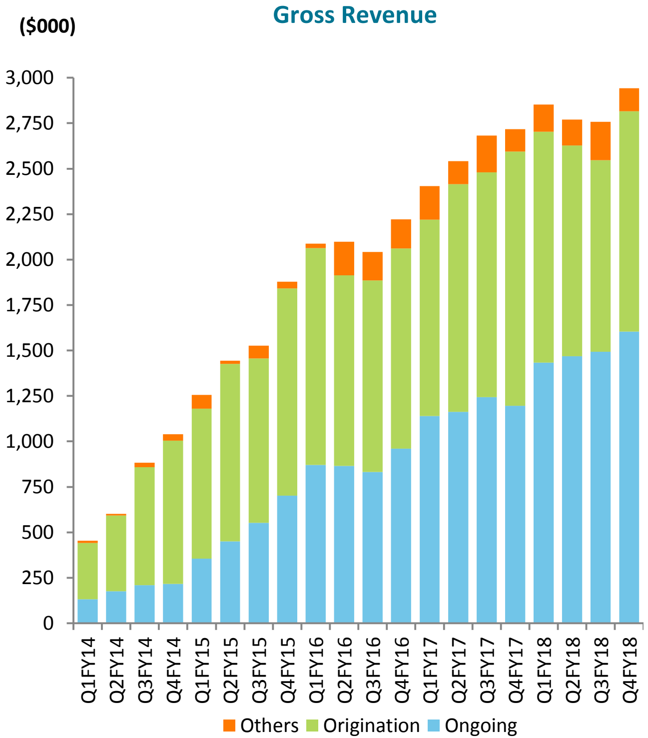


- The new Mortgage Choice broker remuneration model will increase franchisee revenue, allowing them to invest in attracting and retaining loan writers to enable business growth
- Credit reps include 38 limited credit reps as at 30 June 2018

Funds Under Advice and Premiums In Force continue to grow



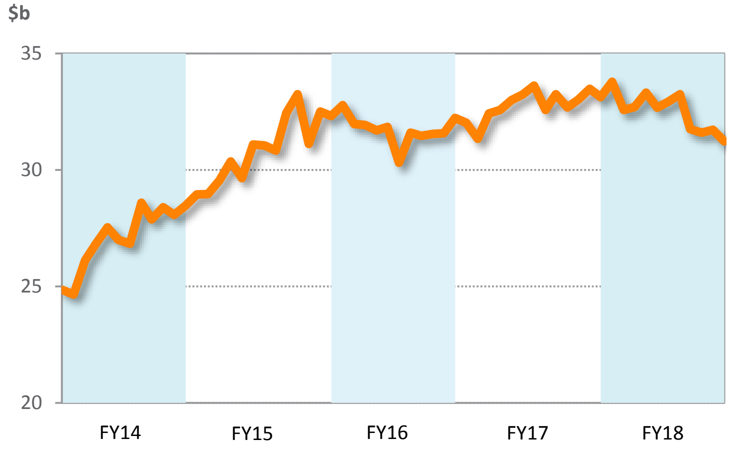
Includes insurance written by broking network



3. Market update

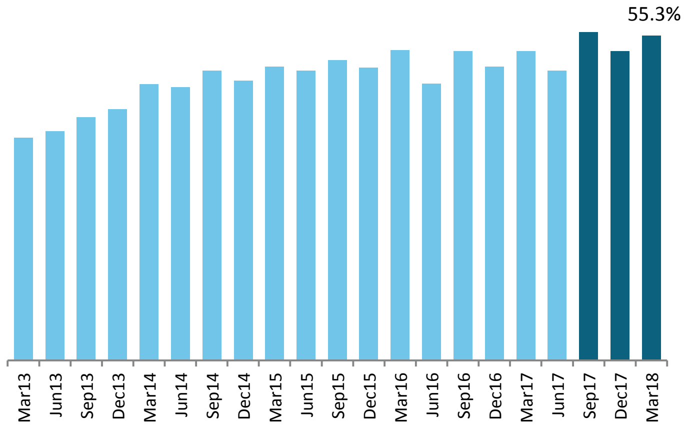
Demand for broking services grows

Housing Finance, ABS



Housing finance source: ABS 5609 Table 11 – Housing Finance, Australia, Jun18 (Seasonally adjusted series)

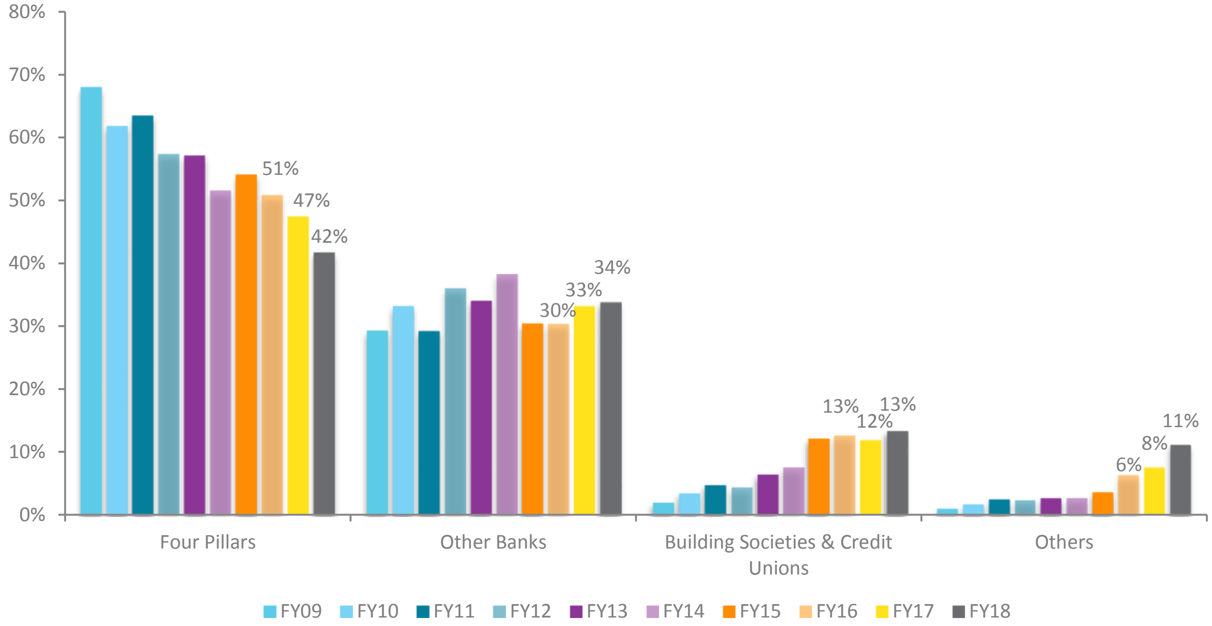
Broker usage, MFAA



Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Mar18 report

- Average approvals per month were $32.5 billion in FY18, almost on par with last year ($32.8 billion). Tightening credit policies and a softening housing market have resulted in approvals dropping to an average of $31.5 in the last three months of the financial year.
- Broker market share continues to grow with 55.3% of home loans originated via a mortgage broker. This is not surprising given the increasing complexity of securing a home loan.

Mortgage Choice residential settlements by lender



Annual Figures from FY09 to FY18
Four Pillars includes primary brands CBA, ANZ, NAB and Westpac

- Four pillars continue to lose market share as consumers increasingly look to smaller banks and niche lenders
- Four pillars including St. George and Bankwest fell from 62% to 57%
- As lending criteria tightens, opportunities arise for some of the niche lenders
- Mortgage Choice Home Loans accounted for 8% of total settlements (categorised in Others)

The outlook for the mortgage broking industry

Inquiries and reports speculating about the future of the mortgage broking industry:

- The **Australian Securities and Investments Commission's** (ASIC) *Review of Mortgage Broker Remuneration* (2017), which found that mortgage brokers play a very important role in the home loan market.
- **Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry** reviews broker remuneration.
- **Productivity Commission Review** into *Competition within the Financial Industry* confirmed the value of mortgage broking but recommended the removal of trail commissions.
- In it's *submission on key policy issues* the **Treasury** acknowledges that mortgage broking, by serving the interests of consumers, has an important role to play in enabling competition. It noted that while the broker commission model is not broken, some changes to commission structure are required to reduce the potential for conflict of interest which the **Combined Industry Forum** (CIF) are addressing.
- More recently, **Deloitte Access Economics** released its *Value of Mortgage Broking* report, stating the broker channel drives competition for all Australians and helps keep interest rates lower.
- Mortgage Choice is an active participant in the **Combined Industry Forum** (CIF) and supports the recommendations put forward. If the need for further changes arises from other inquiries, Mortgage Choice is well prepared to adapt as necessary.

Demand for the services of a broker continues to grow

- 55.3% home loans are originated by mortgage brokers^
- As credit policies tighten brokers provide in-depth knowledge of complex loan writing requirements
- The broking industry encourages competition, helps drive down interest rates and creates better customer outcomes
- Robust distribution channel services regional customers that struggle to get assistance from the banks
- 51.7% broker originated loans come from smaller lenders other than the Big 4^
- Strong levels of customer satisfaction exist with more than 90% of homebuyers saying they are happy with their mortgage broker's performance^

^Sources: Deloitte Access Economics Report 'The value of mortgage broking' and MFAA's quarterly survey of leading mortgage brokers and aggregators – Mar18 report

Opportunities in financial planning

Industry in Transition

- Rapid change continues in the financial advice space.
- Restructuring of wealth businesses across a number of Australia's financial institutions provides Mortgage Choice with the opportunity to attract quality advisers to the MCFP network in FY19.
- This is happening at a time when a new series of regulatory reforms are set to come into force, including new competency standards for financial advisers set by the federal government's Financial Adviser Standards and Ethics Authority (FASEA).

Mortgage Choice Financial Planning – a unique proposition

- Mortgage Choice will offer opportunities to quality advisers looking to change licensees or transition from institutions to start up their own advice business, with the full support of a franchise model.
- Attractive to advisers seeking the backing of a national brand and a regular lead source from our Mortgage Choice broker network.
- Remuneration model is currently under review to ensure it is competitive in a changing landscape.
- Planned investment in FY19 for a new IT platform to reduce the cost to serve for Mortgage Choice advisers and improve the customer experience.

4. Strategic priorities for FY19

Building the platform for growth and long term sustainability

Priorities for FY19

In July 2018, the Company announced it had commenced a company wide change program to provide a platform for growth and long term sustainability. The first priority was the roll out of the new broker remuneration model. The business will focus on the following initiatives in FY19.

Remuneration models

- Embed the new broker remuneration model. 80% franchisees have already opted in. It is expected that all will opt in by end of this financial year
- Review of adviser remuneration underway (provision included in FY19 guidance)

Brand and customer experience

- Shift focus on marketing spend from pure lead generation to brand awareness and engagement to ensure long term brand health
- Improve the online customer experience to create advocacy

Operational efficiencies

- Departmental review of processes to increase efficiency whilst improving the support experience for brokers and advisers
- Roll out of a new Broker Platform, new core systems for financial planning and an online Help Centre to enable franchisees to self serve for support more effectively

Recruitment

- Position Mortgage Choice as an aggregator of choice for potential franchisees and loan writers. New broker remuneration model and best-of-breed loan origination platforms
- Recruit stand alone financial planning franchise owners

FY19 guidance

Mortgage restates the guidance provided on 12th July 2018.

- Cash NPAT expected to be approximately $16.5m
- ~10% reduction in cash operating expense base for FY19 compared to FY18
- Average payout rate from new remuneration model effective from August 2018: 73.4% (upfront 75.3%, trail 72.0%) with margin earned on white label products reclassified as commissions

6. Appendices

5 Year stats- P/L

$m	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18
Origination inc	26.03	25.94	31.72	31.29	34.98	35.02	37.52	35.32	39.28	36.57	36.21	33.81
Origination exp	(18.78)	(18.59)	(23.08)	(22.69)	(25.83)	(25.66)	(27.10)	(25.84)	(28.46)	(26.15)	(24.84)	(24.00)
Cash Trail inc	43.40	43.28	43.94	43.47	44.27	45.06	47.42	47.76	48.39	48.30	49.29	49.17
Cash Trail exp	(25.69)	(25.60)	(25.89)	(26.30)	(26.65)	(27.48)	(28.85)	(29.00)	(29.41)	(29.69)	(29.88)	(30.03)
Net Upfront	7.25	7.35	8.64	8.60	9.15	9.35	10.42	9.48	10.82	10.43	11.37	9.81
Net Trail	17.71	17.68	18.05	17.17	17.62	17.58	18.58	18.76	18.98	18.61	19.41	19.14
	24.96	25.02	26.69	25.77	26.77	26.93	28.99	28.24	29.80	29.03	30.78	28.94
Other Income	3.45	3.64	4.31	4.79	5.43	4.58	5.37	3.20	3.13	5.80	3.45	5.25
Cash PAT	7.82	7.95	8.97	9.74	8.97	9.59	10.09	10.46	11.72	10.91	12.54	10.84
IFRS PAT	7.51	11.20	9.66	8.80	9.97	8.88	10.75	8.79	11.43	10.74	11.44	(7.20)
After tax gain on Loankit sale	-	-	1.34	-	-	-	-	-	-	-	-	-
Cash PAT including gain on sale	7.82	7.95	10.31	9.74	8.97	9.59	10.09	10.46	11.72	10.91	12.54	10.84
IFRS PAT including gain on sale	7.51	11.20	11.00	8.80	9.97	8.88	10.75	8.79	11.43	10.74	11.44	(7.20)
Cash e.p.s.	6.4 c	6.5 c	8.3 c	7.9 c	7.2 c	7.8 c	8.1 c	8.4 c	9.4 c	8.7 c	10.0 c	8.7 c
IFRS e.p.s.	6.2 c	9.0 c	8.9 c	7.1 c	8.0 c	7.2 c	8.6 c	7.1 c	9.2 c	8.6 c	9.2 c	(5.8) c
Div p.s.	6.0 c	7.0 c	7.5 c	8.0 c	7.5 c	8.0 c	8.0 c	8.5 c	8.5 c	9.0 c	9.0 c	9.0 c
Upfront Payout	72.2%	71.7%	72.8%	72.5%	73.8%	73.3%	72.2%	73.2%	72.5%	71.5%	68.6%	71.0%
Trail Payout	59.2%	59.2%	58.9%	60.5%	60.2%	61.0%	60.8%	60.7%	60.8%	61.5%	60.6%	61.1%
Total Payout	64.1%	63.8%	64.7%	65.5%	66.2%	66.4%	65.9%	66.0%	66.0%	65.8%	64.0%	65.1%
Volumes MC												
Settlements # (000)	15.77	15.68	18.66	17.86	19.24	18.81	19.80	19.10	20.01	18.56	18.46	15.91
Settlements $b	4.43	4.35	5.26	5.11	5.74	5.74	6.23	5.97	6.37	5.97	5.99	5.49
Approvals $b	5.09	5.28	6.13	6.04	6.90	6.55	7.22	6.78	7.29	6.78	6.93	6.19
Market $b	129.74	134.12	160.15	160.94	181.16	181.93	198.15	180.19	196.54	188.80	197.97	181.08
Market Share	3.9%	3.9%	3.8%	3.8%	3.8%	3.6%	3.6%	3.8%	3.7%	3.6%	3.5%	3.4%
Avg Residential Loan Book $b	43.80	44.55	45.56	46.48	47.65	48.65	49.73	50.70	51.54	52.52	53.32	53.90

Margins earned in FY16 and FY17 on white label products have been reclassified from other income to origination commission (FY16 - $664K / FY17 - $777K) and trailing commission (FY16 - $199K / FY17 - $300K)

Balance sheet

	Jun-18 $'000	Jun-17 $'000
ASSETS		
Current assets		
Cash and cash equivalents	**3,353**	8,646
Trade and other receivables	**104,038**	101,089
Current tax assets	**112**	-
Total current assets	**107,503**	109,735
Non-current assets		
Receivables	**275,685**	251,234
Property, plant and equipment	**686**	658
Intangible assets	**8,562**	6,081
Total non-current assets	**284,933**	257,973
Total assets	**392,436**	367,708
EQUITY		
Contributed equity	**7,764**	7,277
Reserves	**1,309**	2,075
Retained profits	**76,579**	94,836
Total equity	**85,652**	**104,188**

	Jun-18 $'000	Jun-17 $'000
LIABILITIES		
Current liabilities		
Trade and other payables	**77,211**	68,605
Current tax liabilities	**-**	1,448
Provisions	**1,258**	965
Total current liabilities	**78,469**	71,018
Non-current liabilities		
Trade and other payables	**196,711**	153,812
Deferred tax liabilities	**30,913**	37,899
Provisions	**691**	791
Total non-current liabilities	**228,315**	192,502
Total liabilities	**306,784**	263,520
Net assets	**85,652**	**104,188**

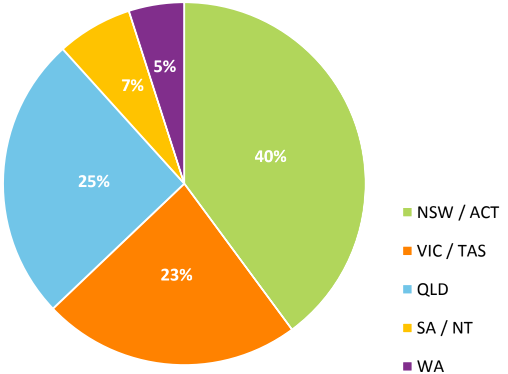
Cash flow statement

	2018 $'000	2017 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**211,084**	215,418
Payments to suppliers and employees (inclusive of goods and services tax)	**(178,702)**	(182,399)
	32,382	33,019
Income taxes paid	**(10,155)**	(9,162)
Net cash inflow from operating activities	**22,227**	23,857
Cash flows from investing activities		
Payments for property, plant, equipment and intangibles	**(4,137)**	(1,395)
Loans to franchisees	**(1,502)**	(1,159)
Proceeds from sale of property, plant and equipment	**37**	1
Interest received	**577**	474
Net cash (outflow) from investing activities	**(5,025)**	(2,079)
Cash flows from financing activities		
Dividends paid to Company's shareholders	**(22,495)**	(21,200)
Net cash (outflow) from financing activities	**(22,495)**	(21,200)
Net increase/(decrease) in cash and cash equivalents	**(5,293)**	578
Cash and cash equivalents at the beginning of the financial year	**8,646**	8,068
Cash and cash equivalents at the end of year	**3,353**	8,646

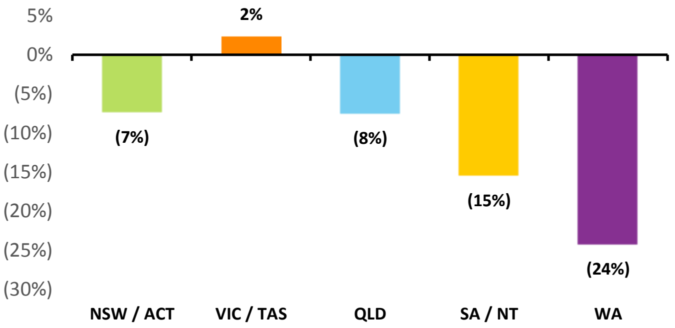
Settlements by state

Settlements ($m)	FY18	%	FY17	%	Growth
NSW / ACT	4,577	40%	4,941	40%	(7%)
VIC / TAS	2,643	23%	2,584	21%	2%
QLD	2,915	25%	3,153	26%	(8%)
SA / NT	775	7%	917	7%	(15%)
WA	568	5%	750	6%	(24%)
	11,478	100%	**12,345**	100%	**(7%)**

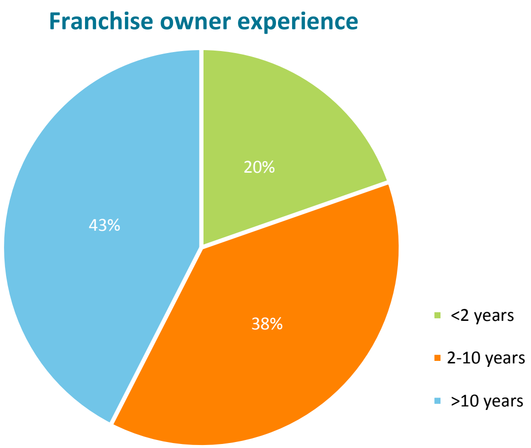
States' contribution to settlements

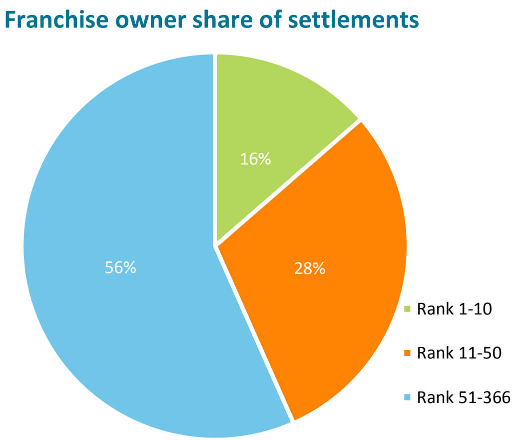


Settlements growth FY18 / FY17



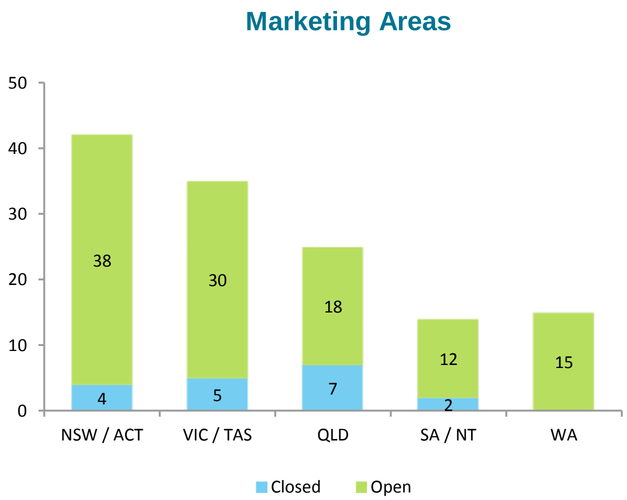
Network snapshot

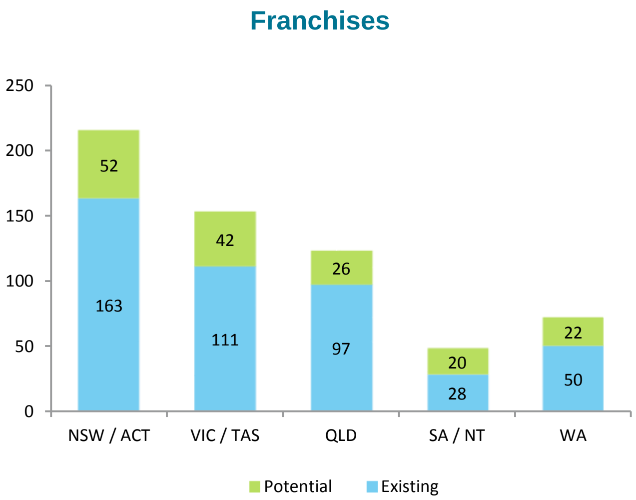




	National		NSW / ACT		VIC / TAS		QLD		SA / NT		WA	
	Jun-18	*Jun-17*	*Jun-18*	*Jun-17*	*Jun-18*	*Jun-17*	*Jun-18*	*Jun-17*	*Jun-18*	*Jun-17*	*Jun-18*	*Jun-17*
Loan book ($b)	54.6	53.4	36.2%	35.7%	19.8%	19.8%	27.1%	26.9%	8.3%	8.6%	8.6%	9.0%
Credit Reps	619	654	221	235	145	152	142	150	50	50	61	67
Franchise	449	449	163	163	111	105	97	98	28	30	50	53

Capacity for growth in recruitment





** Information based on Jun18 Quarter Broker Resource Model*

- Marketing area capacities are assessed quarterly using an external benchmarking model that takes into account geographic data, ABS data and franchise settlements
- In 131 marketing areas, 113 greenfield sites are available
- We have capacity to increase our franchise footprint from 449 to 611

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