



**FY18**

Half Year ending December 2017

# FY18 Half Year results presentation

Presented by John Flavell (CEO)  
and Susan Mitchell (CFO)

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# 1. Executive summary

# Executive summary

## Financial results

Mortgage Choice delivered a solid half of financial results for 1H18:

- Cash NPAT up by 7.0% when compared with 1H17
- IFRS NPAT consistent with 1H17
- Settlements at \$6b and loan book grew to \$54b
- Financial Planning gross revenue increased 15.3% when compared with 1H17
- Diversified products gross revenue up by 12.7% when compared with 1H17
- Interim fully franked dividend of 9c per share up half a cent from 1H17 and consistent with 2H17

The mortgage book continues to grow and Mortgage Choice's diversification strategy delivers results with pleasing increases in both financial planning and diversified product revenue.

## Operations

The Company will deliver two significant projects in FY18, both focused on improving the customer experience and broker productivity

1. Upgrade and redesign of the corporate and franchisee websites
2. Purpose built online broker platform

Development progressed throughout 1H18 for releases early in the second half.

# 1H18 performance highlights

		1H18	1H17	1H18 vs 1H17	
NPAT	- Cash	12.5 m	11.7 m	7.0%	▲
	- IFRS	11.4 m	11.4 m	0.0%	■
Mortgage Broking	- Loan book^	54.0 b	52.4 b	3.2%	▲
	- Settlements	6.0 b	6.4 b	(6.0%)	▼
Financial Planning	- Funds Under Advice	634.2 m	423.1 m	49.9%	▲
	- Premium In Force	26.6 m	22.0 m	21.1%	▲
	- FP gross revenue	5.6 m	4.9 m	15.3%	▲
EPS	- Cash	10.0 c	9.4 c	6.6%	▲
	- IFRS	9.2 c	9.2 c	0.0%	■
DPS	- Ordinary	9.0 c	8.5 c	5.9%	▲

*^Includes residential and commercial*

## 2. Financial performance

# Profit and Loss statement

<sup>^</sup> 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.

\$m

Origination commission received  
Trailing commission received

Origination commission paid  
Trailing commission paid

## Net core commission

Diversified products net revenue  
Financial Planning net revenue  
HMC net revenue  
Other income

## Gross profit

Operating expenses  
Share based remuneration

Net profit before tax

## Net profit after tax

EPS (cps)  
DPS (cps)

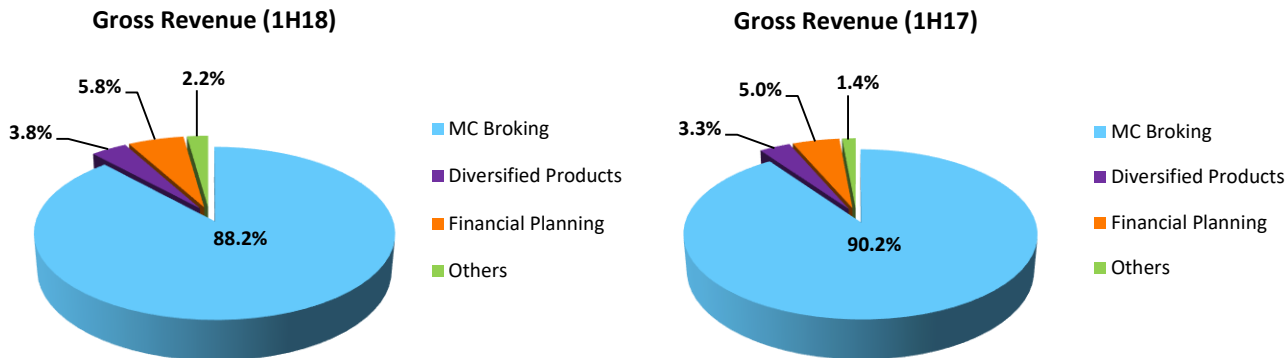
1H18 Cash <sup>^</sup>	1H17 Cash <sup>^</sup>	% change
35.65	38.96	(8.5%)
48.99	48.27	1.5%
84.64	87.23	(3.0%)
24.84	28.46	(12.7%)
29.88	29.41	1.6%
54.72	57.88	(5.5%)
<b>29.92</b>	<b>29.35</b>	<b>2.0%</b>
0.88	0.81	8.1%
1.07	0.93	14.1%
0.25	0.44	(43.9%)
2.12	1.39	52.2%
<b>34.23</b>	<b>32.93</b>	<b>4.0%</b>
16.23	16.28	(0.3%)
-	-	-
17.99	16.64	8.1%
<b>12.54</b>	<b>11.72</b>	<b>7.0%</b>
10.0	9.4	6.6%
9.0	8.5	5.9%

1H18 IFRS	1H17 IFRS	% change
35.65	38.96	(8.5%)
48.68	51.14	(4.8%)
84.33	90.10	(6.4%)
24.84	28.46	(12.7%)
30.15	31.63	(4.7%)
54.99	60.09	(8.5%)
<b>29.34</b>	<b>30.01</b>	<b>(2.2%)</b>
0.88	0.81	8.1%
1.07	0.93	14.1%
0.02	-	-
2.12	1.39	52.2%
<b>33.42</b>	<b>33.15</b>	<b>0.8%</b>
16.23	16.28	(0.3%)
0.54	0.44	22.3%
16.65	16.43	1.3%
<b>11.44</b>	<b>11.43</b>	<b>0.0%</b>
9.2	9.2	(0.0%)
9.0	8.5	5.9%

- Second half expected to be lower due to seasonal fluctuations

# Continued focus on diversification delivers results

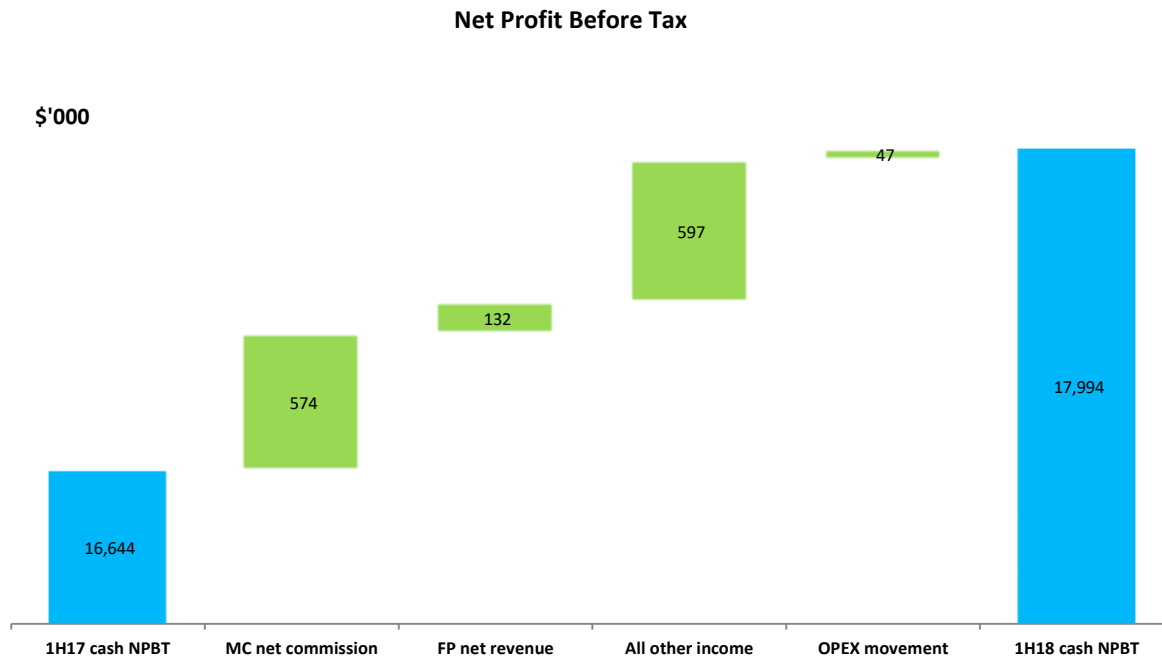
*\* Gross Revenue on a cash basis excluding  
Help Me Choose (HMC), which closed in FY16*



- Proportion of gross revenue from non-residential lending activities increased in 1H18 to 11.8%
- Continued growth in gross revenue from financial planning and diversified products, up 15.3% and 12.7% respectively, partially offset the decline in revenue from broking commissions proving the merit of the Company's diversification strategy
- Diversification remains a key opportunity for further revenue growth



# Cash NPBT records strong growth and controlled expense



- Results include increases across all primary categories – residential commission, FP, all other income as well as a reduction in operating expenses.
- Increase in all other income includes growth across diversified revenue, training related fees, branded product margin, educational assistance and interest

# Financial Planning and core broking business deliver solid gross profit result

\$000	Divisional results								
	MC	1H18 FP	HMC	MC	1H17 FP	HMC	MC	1H16 FP	HMC
Settlements	6.0b			6.4b			6.2b		
Gross profit (IFRS)	32,307	1,089	21	32,122	1,023	0	34,514	787	458
Gross profit (Cash)	32,891	1,089	248	31,459	1,023	442	32,728	787	844
OPEX	15,394	840	0	15,300	981	0	16,996	1,174	1,696
EBITDA (Cash)	18,004	249	248	16,724	55	441	16,258	(355)	(785)
NPAT (IFRS)	11,247	174	15	11,418	16	0	11,884	(284)	(851)
NPAT (Cash)	12,192	174	174	11,375	35	309	10,958	(266)	(603)
YOY Growth (%)	7%	397%	(44%)						

- Core broking business cash NPAT up 7%
- Financial Planning business profitable on an annual basis; reduction in OPEX as salaried advisers join the franchise network
- Help Me Choose (HMC) closed in FY16 and continues an orderly run-off; expect a declining cash contribution over FY18 and 1H19

# Average upfront commission rates have improved



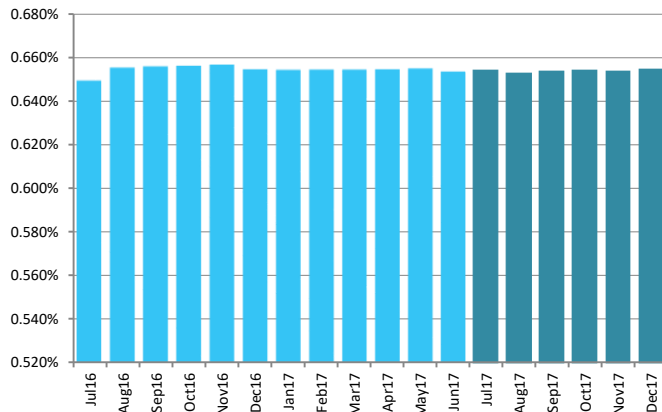
*Average rate total book*

*Average rate total book (estimated)*

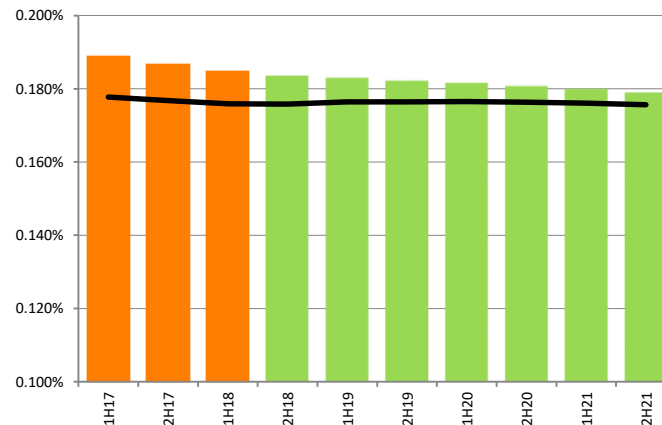


*Average rate of new settlements post GFC changing commission rates*

Average upfront rate



Average trail rate



- Average upfront rate for 1H18 is 0.6538%
- The average projected trail rate has been upgraded from previous presentations due to reduced run-off projections

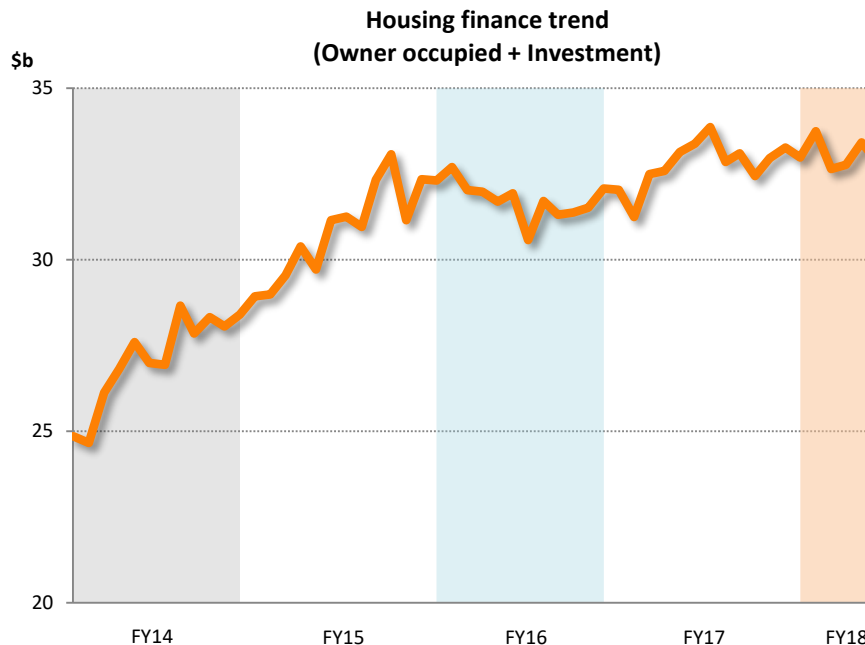
# Operating cash flow

\$000	1H18	1H17
<b>Net profit before tax (cash basis)</b>	<b>17,994</b>	<b>16,644</b>
Depreciation and amortisation	762	796
	18,756	17,440
Tax paid	(5,535)	(4,823)
Purchase of fixed assets and software	(1,609)	(600)
Loans to Franchisees	(891)	(462)
Other balance sheet movements	(1,040)	(2,239)
Cash flow before dividends	9,681	9,316
Dividends paid	(11,246)	(10,579)
<b>Net cash movement</b>	<b>(1,565)</b>	<b>(1,263)</b>

# 3. Market update

# Home loan approvals remain consistent

*Housing finance source: ABS 5609  
Table 11 – Housing Finance,  
Australia, Dec17 (Seasonally  
adjusted series)*



- Housing finance commitments continue to hover around \$33 billion in approvals on average per month
- However the shape of the market has changed. First Home Buyers are re-entering the market assisted by generous state based First Home Buyer Grants. The macro prudential measures introduced by APRA have achieved their objective and cooled the investor market. Prolonged periods of cash rate stability have driven a decline in the refinance market, despite lenders making out-of-cycle rate changes.

Heightened complexity in the market presents Mortgage Choice with an opportunity to provide more Australians with advice from local experts they can trust

## Interest rates

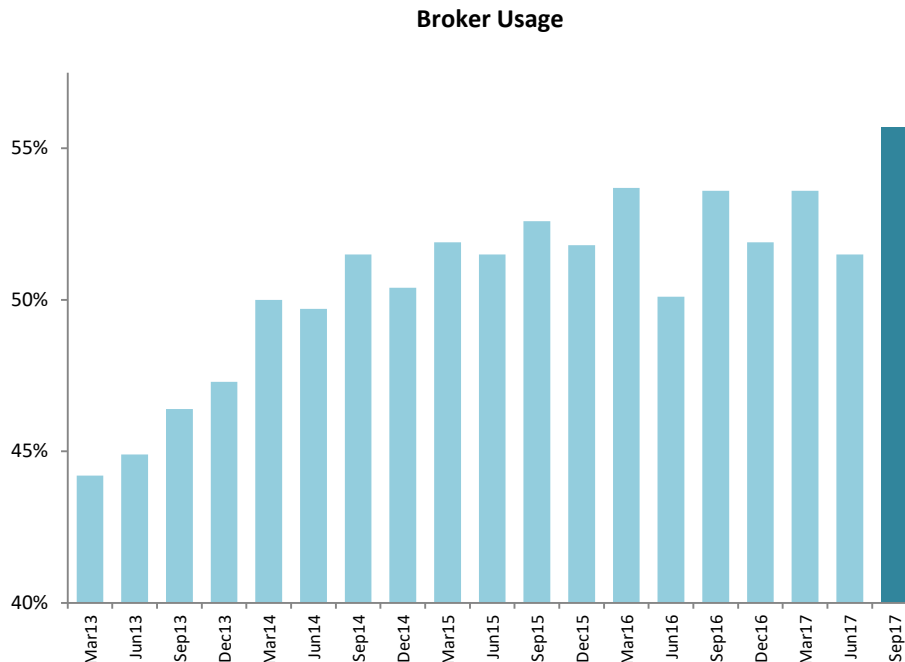
- Anticipating global and local cash rate increases within the next 12 months
- Regulatory changes and increases to wholesale funding costs have driven out-of-cycle rate changes from Australia's lenders
- Demand for fixed rate products has fallen
- The environment remains confusing for consumers, increasing their need for expert home loan and financial advice

## Regulatory environment

- ASIC's review into Mortgage Broker Remuneration recommended a number of changes to the way brokers are remunerated. On the whole the review concluded that mortgage brokers deliver good customer outcomes. At the same time, a third party review into Retail Banking Remuneration was commissioned by the ABA - otherwise known as the Sedgwick Review.
- The Combined Industry Forum (CIF) tabled a paper to Treasury detailing a Proposed Reform Package in response to the recommendations from both reviews. Mortgage Choice participated in the CIF and supports the proposed reform package .
- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was announced and third party intermediaries are in scope

# Broker market share continues to grow

*Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Sep17 report*



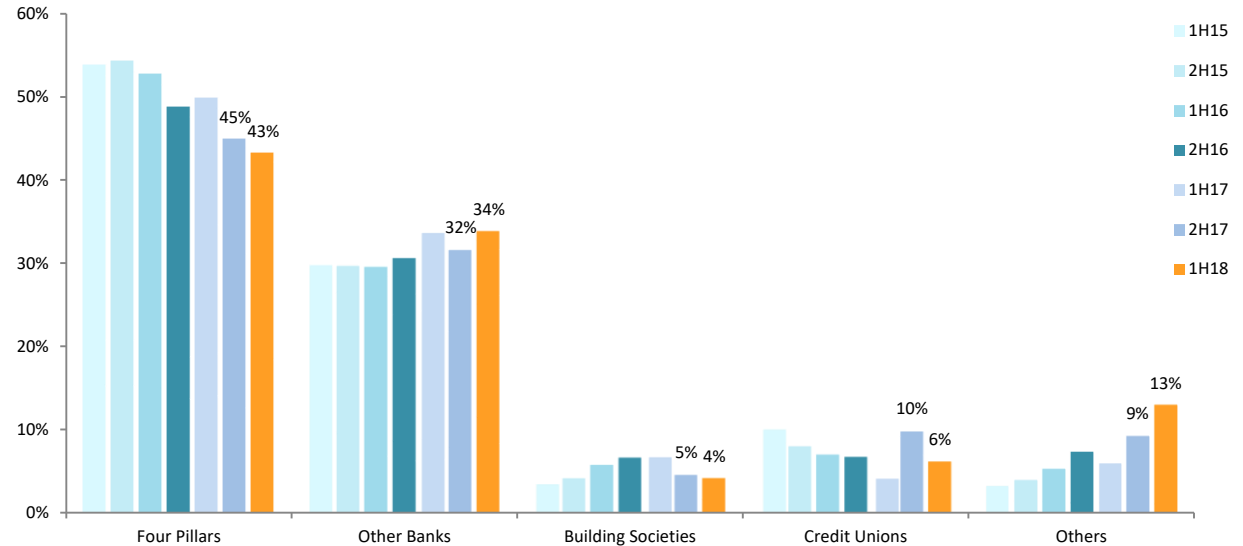
- Consumers continue to value the expertise and experience of brokers, with broker share reaching 55.7%
- As brokers continue to diversify their service proposition, they will create deeper customer relationships leading to further growth in market share



# Mortgage Choice settlements by lender

Annual Figures from FY08 to FY18

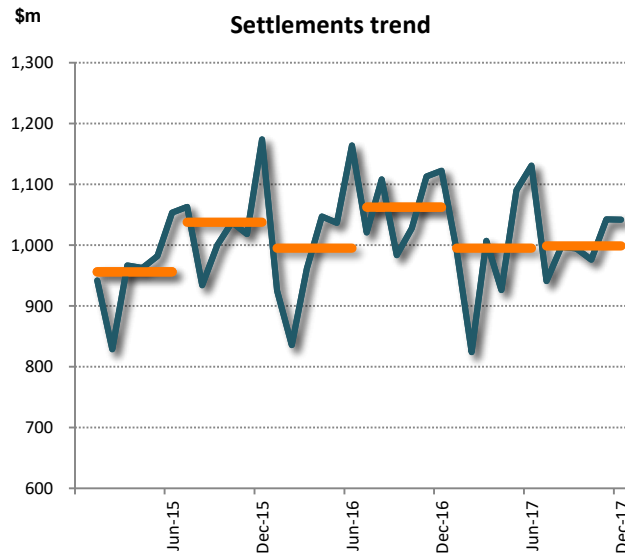
Four Pillars includes CBA, ANZ, NAB and Westpac (excludes St. George and BankWest)



- Four pillars continue to lose market share as consumers increasingly look to smaller banks and credit unions
- Four pillars including St George and Bankwest remains flat at 60%
- Smaller banks and credit unions more flexible and less impacted by regulatory changes, which has resulted in greater business opportunities for them

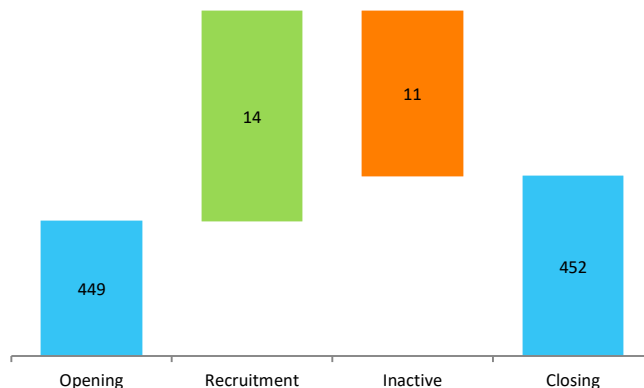
# 4. Operations

Loan book  
continues to  
grow, up 3.2%  
half on half

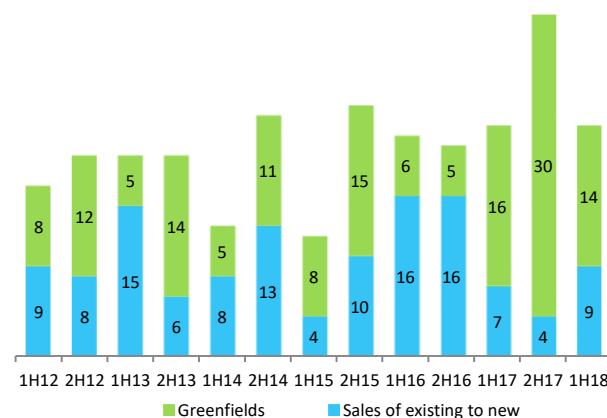


# Mortgage Choice continues to attract new franchisees

Franchise Movement

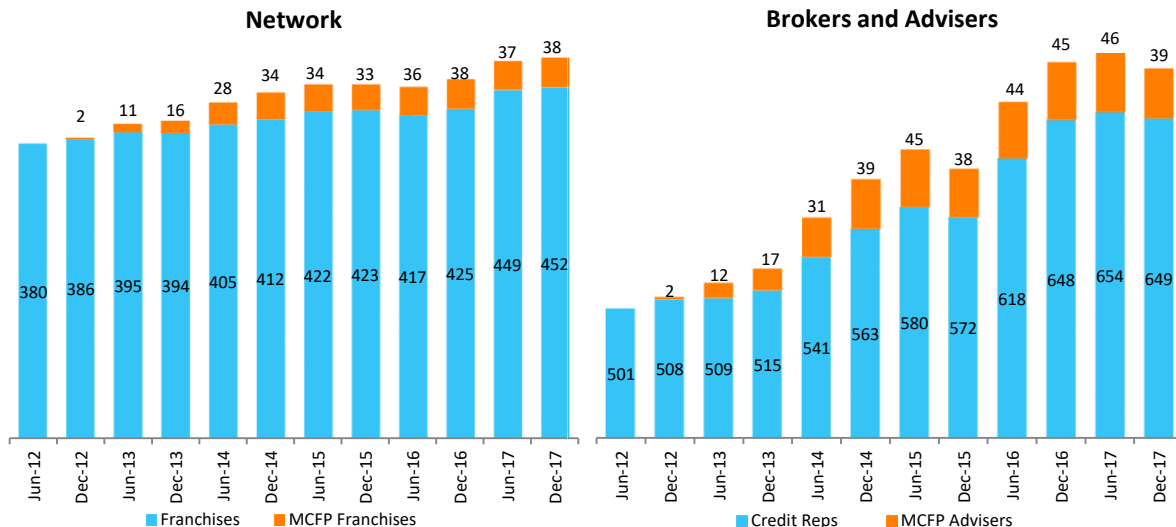


Sale of greenfields and existing franchises



- 14 Greenfields recruited in 1H18
- Industry leading induction and continued support program, Accelerate, helping new recruits be more productive faster

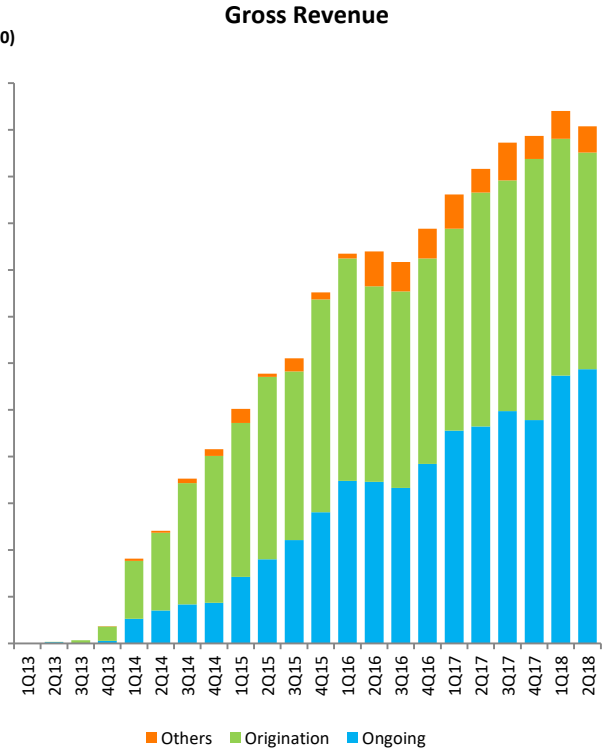
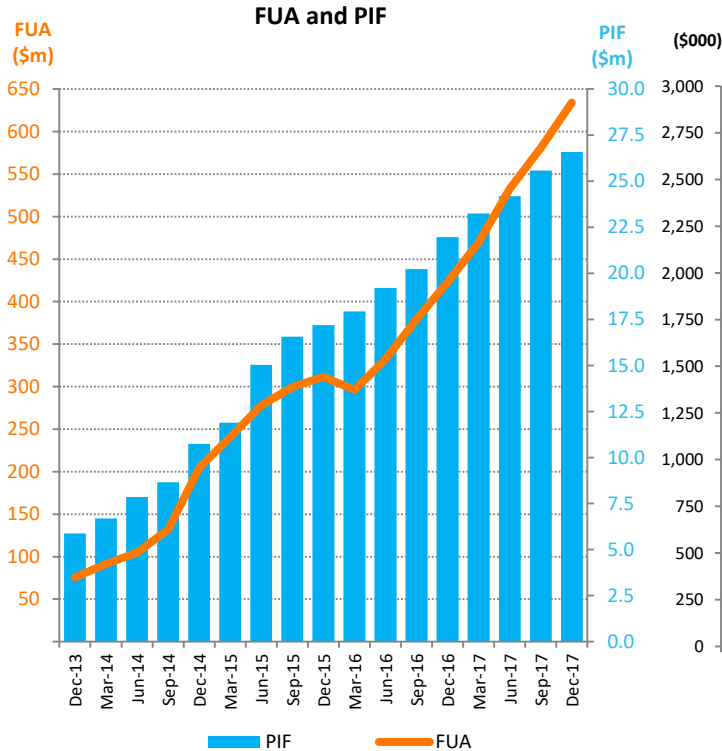
Total franchise numbers continue to grow



- Franchise numbers continue to increase following record post GFC growth in FY17
- Although the number of advisers has declined, there has been growth in the number of administrative and para-planning resources employed by Mortgage Choice Financial Planning franchisees. This has led to improved efficiencies within their businesses. This is expected this to continue.

# Funds Under Advice and Premiums In Force continue to grow

*\*Includes insurance written by broking network*



The Company is focused on delivering two key projects, both will improve the customer experience and increase broker productivity

### New Mortgage Choice website

Launched on 16<sup>th</sup> January 2018, the new Mortgage Choice website aims to:

- improve the customer experience, particularly on mobile devices
- increase lead volumes
- provide franchisees with industry leading website functionality to promote their individual businesses
- increase franchisee productivity by providing an intuitive, easy to use content management system for the management of their individual sites
- strengthen the foundations for an omni-channel customer experience

### Mortgage Choice Broker Platform

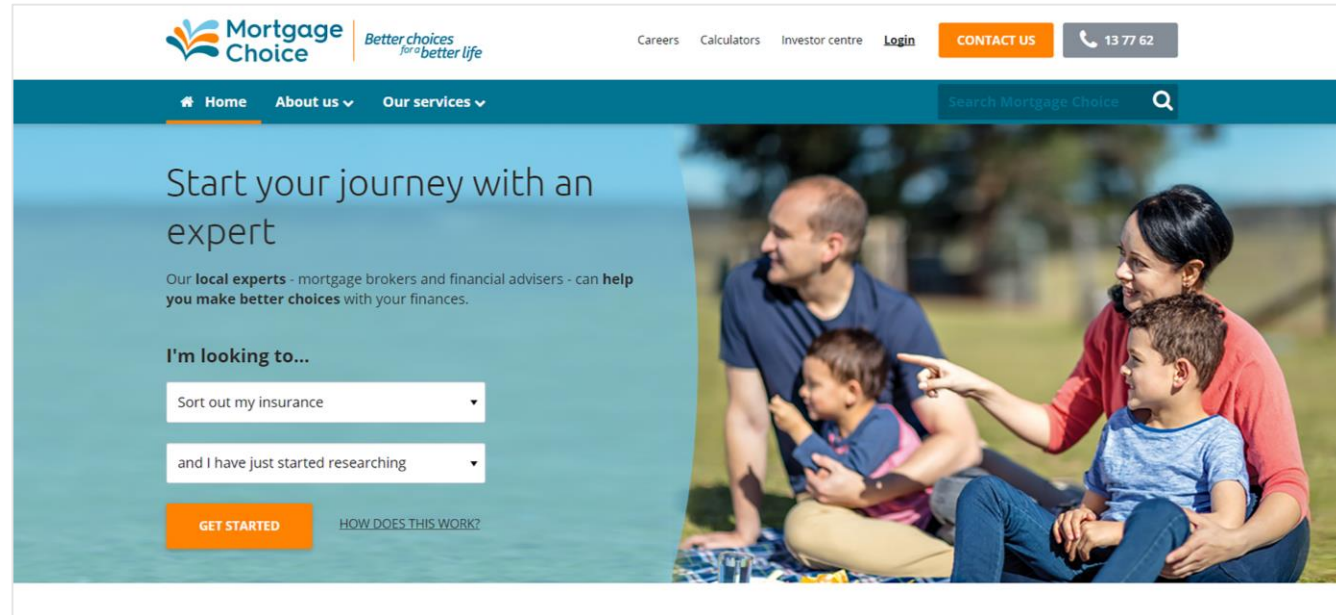
Launching in phases throughout 2H18, a bespoke online broker platform is being developed which aims to:

- increase broker productivity with a focus on reducing data entry across multiple systems
- deliver a more efficient loan submission process
- enable brokers to work from any device, anywhere, anytime
- enable brokers to deliver a better customer experience

Phase 1 will roll out in February 2018.

The new website includes many new features to assist customers in finding the information they need quickly and easily

## New Mortgage Choice website





The new Broker Platform will be online, intuitive and significantly reduce data entry for brokers

## Mortgage Choice Broker Platform

**Mortgage Choice** Franchise **NSWN-747** Sam

### Quick Qualifier

1 Borrowing Power 2 Funds Required 3 Save

Number of Applicants: One Two

**Applicant**

**Income**

Income Before Tax: \$55,000 Annually  
Employment Type: PAYG Self Employed  
Rental Income: \$0 Monthly  
Other Income: \$0 Monthly

**Expenses**

Other Loan Repayments: \$0 Monthly  
Total Credit Card Limits: \$0

**Shared Expenses**

Monthly Living Expenses: \$1,466 Dependents: 0

**You may borrow up to:** \$323,666

**Borrowing Capacity**

Surplus Income: \$2,241  
New Loan Repayment: \$1,470  
Expenses: \$1,466

**Interest Rate:** 3.59%  
Repayments based on a loan term of 30 years  
**\$1,470 Monthly (P&I)**

Reset Calculate

Disclaimer: The information displayed is based upon limited data provided and is general in nature. It is not a formal assessment of eligibility for a loan. It should not be relied upon for the purpose of entering into any legal or financial obligations.

Brand awareness initiatives continue at a local level with a growing footprint of retail stores and a variety of local area marketing activities



- Mortgage Choice continues to enhance its local brand awareness and footprint, with 142 retail shopfronts nationwide

## New creative and media strategy helps Mortgage Choice stand out as the local experts



- A new creative strategy launched in August 2017. New commercials were created to emphasise that Mortgage Choice brokers and advisers are part of the local communities they operate in. The commercials hero real Mortgage Choice brokers and advisers and focus on how they help people make better choices with their finances.
- The ads are showing across YouTube and Foxtel. YouTube was introduced to the media strategy this year and is proving to be an efficient channel for broadcasting the ads to targeted audiences.

# 1H18 Summary

	1H18	1H17	% Change	
Cash NPAT (\$m)	12.5	11.7	7.0%	▲
IFRS NPAT (\$m)	11.4	11.4	0.0%	■
Loan book (\$b) ^	54.0	52.4	3.2%	▲
Home Loan Settlements (\$b)	6.0	6.4	(6.0%)	▼
FUA (\$m)	634.2	423.1	49.9%	▲
PIF (\$m)	26.6	22.0	21.1%	▲
FP gross revenue (\$m)	5.6	4.9	15.3%	▲
Dividend (\$c)	9.0	8.5	5.9%	▲

*^Includes residential and commercial*

# Questions?

## 6. Appendices

# Yearly stats

## – P/L

\$m	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18
Origination inc	26.03	25.94	31.72	31.29	34.98	35.02	37.32	34.99	38.96	36.12	35.65
Origination exp	(18.78)	(18.59)	(23.08)	(22.69)	(25.83)	(25.66)	(27.10)	(25.84)	(28.46)	(26.15)	(24.84)
Cash Trail inc	43.40	43.28	43.94	43.47	44.27	45.06	47.40	47.69	48.27	48.12	48.99
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)
Net Upfront	7.25	7.35	8.64	8.60	9.15	9.35	10.22	9.14	10.49	9.98	10.82
Net Trail	17.71	17.68	18.05	17.17	17.62	17.58	18.55	18.68	18.86	18.43	19.11
	24.96	25.02	26.69	25.77	26.77	26.93	28.77	27.83	29.35	28.41	29.92
Other Income	3.45	3.64	4.31	4.79	5.43	4.58	5.59	3.62	3.58	6.43	4.31
Cash PAT	7.82	7.95	8.97	9.74	8.97	9.59	10.09	10.46	11.72	10.91	12.54
IFRS PAT	7.51	11.20	9.66	8.80	9.97	8.88	10.75	8.79	11.43	10.74	11.44
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
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
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
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
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
Upfront Payout	72.2%	71.7%	72.8%	72.5%	73.8%	73.3%	72.6%	73.9%	73.1%	72.4%	69.7%
Trail Payout	59.2%	59.2%	58.9%	60.5%	60.2%	61.0%	60.9%	60.8%	60.9%	61.7%	61.0%
Total Payout	64.1%	63.8%	64.7%	65.5%	66.2%	66.4%	66.0%	66.3%	66.4%	66.3%	64.6%
<b>Volumes MC</b>											
Settlements # (000)	15.77	15.68	18.66	17.86	19.24	18.81	19.80	19.10	20.01	18.56	18.46
Settlements \$b	4.43	4.35	5.26	5.11	5.74	5.74	6.23	5.97	6.37	5.97	5.99
Approvals \$b	5.09	5.28	6.13	6.04	6.90	6.55	7.22	6.78	7.29	6.78	6.93
Market \$b	129.74	134.12	160.15	160.94	181.16	181.93	198.15	180.19	196.54	188.80	197.97
Market Share	3.9%	3.9%	3.8%	3.8%	3.8%	3.6%	3.6%	3.8%	3.7%	3.6%	3.5%
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

# Balance sheet

	Dec-17 \$'000	Jun-17 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,081	8,646
Trade and other receivables	101,567	101,089
Total current assets	<u>108,648</u>	<u>109,735</u>
<b>Non-current assets</b>		
Receivables	251,304	251,234
Property, plant and equipment	743	658
Intangible assets	6,843	6,081
Total non-current assets	<u>258,890</u>	<u>257,973</u>
<b>Total assets</b>	<u>367,538</u>	<u>367,708</u>
<b>EQUITY</b>		
Contributed equity	7,764	7,277
Reserves	2,125	2,075
Retained profits	95,026	94,836
<b>Total equity</b>	<u>104,915</u>	<u>104,188</u>

	Dec-17 \$'000	Jun-17 \$'000
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	67,766	68,605
Current tax liabilities	861	1,448
Provisions	1,316	965
Total current liabilities	<u>69,943</u>	<u>71,018</u>
<b>Non-current liabilities</b>		
Trade and other payables	154,000	153,812
Deferred tax liabilities	38,160	37,899
Provisions	520	791
Total non-current liabilities	<u>192,680</u>	<u>192,502</u>
<b>Total liabilities</b>	<u>262,623</u>	<u>263,520</u>
<b>Net assets</b>	<u>104,915</u>	<u>104,188</u>



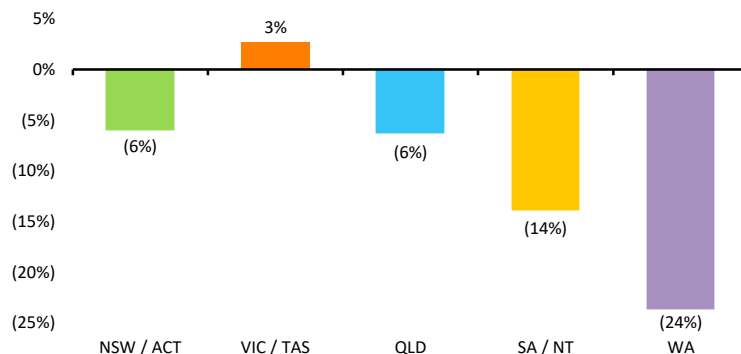
# Cash flow statement

	Half-year ended	
	31-Dec-17 \$'000	31-Dec-16 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	104,423	105,636
Payments to suppliers and employees (inclusive of goods and services tax)	(87,894)	(91,118)
	16,529	14,518
Income taxes paid	(5,535)	(4,823)
<b>Net cash inflow from operating activities</b>	<b>10,994</b>	<b>9,695</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant, equipment and intangibles	(1,609)	(600)
Proceeds from sale of PPE	-	1
Interest received	296	220
<b>Net cash (outflow) from investing activities</b>	<b>(1,313)</b>	<b>(379)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(11,246)	(10,579)
<b>Net cash (outflow) from financing activities</b>	<b>(11,246)</b>	<b>(10,579)</b>
<b>Net decrease in cash and cash equivalents held</b>	<b>(1,565)</b>	<b>(1,263)</b>
Cash and cash equivalents at the beginning of the half-year	8,646	8,068
<b>Cash and cash equivalents at the end of the half-year</b>	<b>7,081</b>	<b>6,805</b>

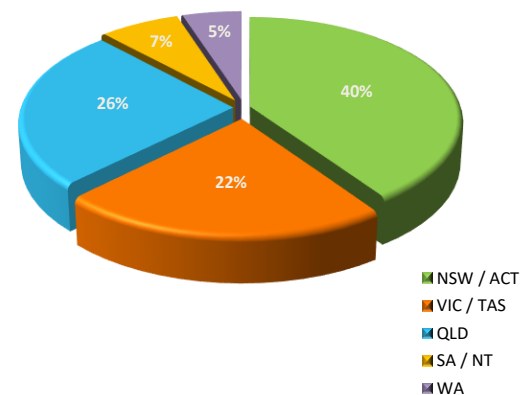
# Settlements by state

<u>Settlements (\$m)</u>	<u>1H18</u>	<u>%</u>	<u>1H17</u>	<u>%</u>	<u>Growth</u>
NSW / ACT	2,412	40%	2,566	40%	(6%)
VIC / TAS	1,340	22%	1,305	20%	3%
QLD	1,524	26%	1,627	26%	(6%)
SA / NT	413	7%	479	8%	(14%)
WA	304	5%	397	6%	(24%)
	<b>5,992</b>	<b>100%</b>	<b>6,374</b>	<b>100%</b>	<b>(6%)</b>

Settlements growth 1H18 / 1H17

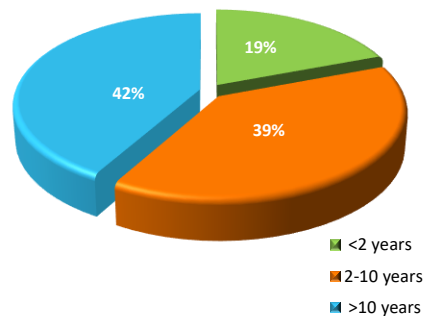


States Contribution to Settlements

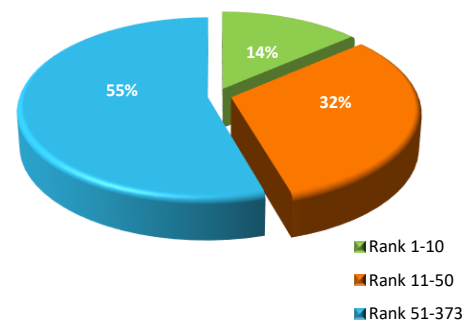


# Network snapshot

Franchise owner experience



Franchise owner share of settlements



	National		NSW / ACT		VIC / TAS		QLD		SA / NT		WA	
	<u>Dec-17</u>	<u>Dec-16</u>	<u>Dec-17</u>	<u>Dec-16</u>	<u>Dec-17</u>	<u>Dec-16</u>	<u>Dec-17</u>	<u>Dec-16</u>	<u>Dec-17</u>	<u>Dec-16</u>	<u>Dec-17</u>	<u>Dec-16</u>
Loan book (\$b)	54.0	52.4	35.9%	35.5%	19.8%	19.8%	27.1%	26.8%	8.4%	8.7%	8.8%	9.2%
Loan writer (incl LCR)	649	648	242	226	155	154	142	155	46	48	64	65
Franchise	452	425	165	156	111	101	97	89	29	28	50	51

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For further information visit  
[www.mortgagechoice.com.au](http://www.mortgagechoice.com.au)

or contact

Melissa McCarney General Manager Group Marketing and Communications

Ph: (02) 8907 0472

Email: [melissa.mccarney@mortgagechoice.com.au](mailto:melissa.mccarney@mortgagechoice.com.au)