



## **MORTGAGE CHOICE AGM 2017 CHAIRMAN'S ADDRESS**

On 1 July 2017, I was appointed Chairman.

Since that time, I have engaged with many of our key stakeholders, in particular franchisees, shareholders and employees. It is clear from those conversations that Mortgage Choice is a company with a well understood and supported purpose and vision.

The Company's vision, to be Australia's leading provider of financial choices and advice, is supported by a sound strategy that will deliver value to customers as well as profitability to franchisees and shareholders. And the Company's firm commitment to its purpose of helping all Australians create a life of abundance, is one of the things that first attracted me to the Company.

Having spent many years working within the financial services and property investment industries, I understand all too well how important it is for a company to deliver a customer experience that is second to none.

And, in my experience, Mortgage Choice is committed to doing just that.

I would like to take this opportunity to thank my predecessor, Peter Ritchie, for his invaluable contribution to Mortgage Choice. Peter's integrity, professionalism and dedication has proven invaluable to the ongoing success of Mortgage Choice.

This year, Mortgage Choice celebrated its 25<sup>th</sup> birthday. What a fabulous milestone. The Company was a pioneer in the mortgage broking industry in Australia and remains one of the pre-eminent brands within the marketplace. Whilst we are in business to be profitable, it is the way we conduct ourselves in the business that truly defines who we are. As a team, we value people who naturally do the right thing by others – who are honest, trustworthy and respectful. We encourage innovation and appreciate those who constantly look for better ways to do things in order to deliver exceptional customer experiences. At Mortgage Choice, we have three service standards – care, solve and amaze. These service standards form the cornerstone of the organisation's values and have been consistent for the last 25 years.

In addition to delivering a highly valuable service to our customers through our core service standards, at Mortgage Choice, we are also committed to making a positive contribution to our community.

We partnered with Ronald McDonald House Charities in 2011 and, during this time, have donated more than \$700,000 to the not-for-profit organisation. We are thrilled to have formed a close relationship with this much valued charity and look forward to continuing this relationship for many years to come.

I turn now to some reflections on the 2017 Financial Year. It was a year punctuated by regulatory change and broker scrutiny.

Australia's lenders made significant changes to their investment policy and pricing in response to increased regulatory change.

In addition, in March of this year, the Australian Securities & Investments Commission unveiled its review into Broker Remuneration structures. While the report made it clear that brokers do an excellent job of delivering positive consumer outcomes, it pointed out that there are some areas of the current remuneration model that could be strengthened. Mortgage Choice has supported ASICs Mortgage Broker Remuneration Review from the outset, and has worked closely with the Regulator, Treasury and industry throughout the process. We will continue to do so to promote better outcomes for consumers and industry participants.

Despite the complex lending environment and heightened level of regulatory change, we are pleased to report that throughout the last financial year, we settled \$12.3 billion in home loans – a new record for the business. In addition, our loan book exceeded \$53 billion.

We also recruited a record number of greenfield franchises – with 46 added to the network.

Our financial planning arm delivered its first full year profit result, with gross revenue passing \$10 million and gross profits up by 26% in comparison to the previous year.

We also launched a branded asset finance offering that gained immediate traction with the network.

These activities helped Mortgage Choice grow our cash NPAT result by more than 10%, the second consecutive year that this has occurred. And our full year dividend of 17.5 cents per share pleasingly represents an increase of 1 cent per share on the prior year. John Flavell will take you through this performance in greater detail in his presentation.

I turn now to governance matters. At the FY 2016 AGM, Mortgage Choice received a no vote in excess of 25% on its Remuneration Report – a first strike. In response to the shareholder vote, the Remuneration Committee reflected on the feedback it had received and, in conjunction with the Board, made a change to the structure of the long-term incentive (LTI) framework.

From FY 2018, the LTI award will be delivered in the form of performance rights and participants will no longer receive dividends or any dividend equivalent payments in respect of LTI awards prior to vesting.

To offset the impact of removing dividends on unvested LTI awards, the Board will increase the fixed remuneration of LTI participants by an amount equal to the estimated dividends they would have received had they held performance shares in respect of FY 2018.

Stepped increases in fixed remuneration will occur in FY 2018 and the two following years to reflect the progressive transition from performance shares to performance rights as legacy awards reach the end of their vesting periods.

As noted in the Remuneration Report, the Board will continue to review the remuneration structure during the current financial year and have commenced the process to obtain independent advice to assist in that review. The Board remains committed to a remuneration approach linked to company strategy and performance which balances the long-term interests of shareholders and the need to attract and retain top performing executives.

We are also aware of our shareholders views in relation to the tenure of certain board members. We acknowledge those views, and my appointment was the first step in an ongoing process of board renewal.

That concludes my opening remarks. I will now hand over to our chief executive officer John Flavell who provide more detail on our results.

**FY17**

25 October 2017

# Mortgage Choice Annual General Meeting

Presented by John Flavell, CEO



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# 1. Executive summary



# Executive summary

## Financial results

Mortgage Choice delivered yet another year of strong financial results:

- Cash NPAT up by 10.2% - two consecutive years of over 10% growth
- IFRS NPAT up by 13.5%
- Settlements grew to \$12.3b and the loan book grew to \$53.4b
- Financial Planning gross revenue passed \$10m, gross profit grew by 26% and the division delivered a profit for the year
- Asset Finance gross revenue grew by 9.3% with over 1,600 transactions completed for the year
- Record 46 new greenfield franchises were recruited
- Final dividend of 9c per share, taking the full year record dividend to 17.5c per share fully franked, up 1c year on year

## Operations

The Company successfully delivered a number of strategic initiatives to drive growth, including:

- Launch of a Mortgage Choice branded asset finance offer
- New induction and on-boarding program to accelerate the success of new franchisees
- Retail and collaborative marketing initiatives to drive local brand awareness
- Launch of two industry leading online tools to add further value to Mortgage Choice Financial Planning's offering

# FY17 performance highlights

		<b>FY17</b>	<b>FY16</b>	<b>FY17 vs FY16*</b>	
NPAT	- Cash	22.6 m	20.5 m	10.2%	▲
	- IFRS	22.2 m	19.5 m	13.5%	▲
Mortgage Broking	- Loan book	53.4 b	51.7 b	3.2%	▲
	- Settlements	12.3 b	12.2 b	1.2%	▲
	- Market share	3.7 %	3.7 %	0.0%	■
Financial Planning	- Funds under advice	532.4 m	332.1 m	60.3%	▲
	- Premiums in force	24.2 m	19.2 m	26.0%	▲
	- FP gross profit	2.2 m	1.7 m	26.0%	▲
EPS	- Cash	18.1 c	16.5 c	9.7%	▲
	- IFRS	17.8 c	15.7 c	13.4%	▲
DPS	- Ordinary	17.5 c	16.5 c	6.1%	▲

\* Percentage change is based on underlying figures



## 2. Financial performance

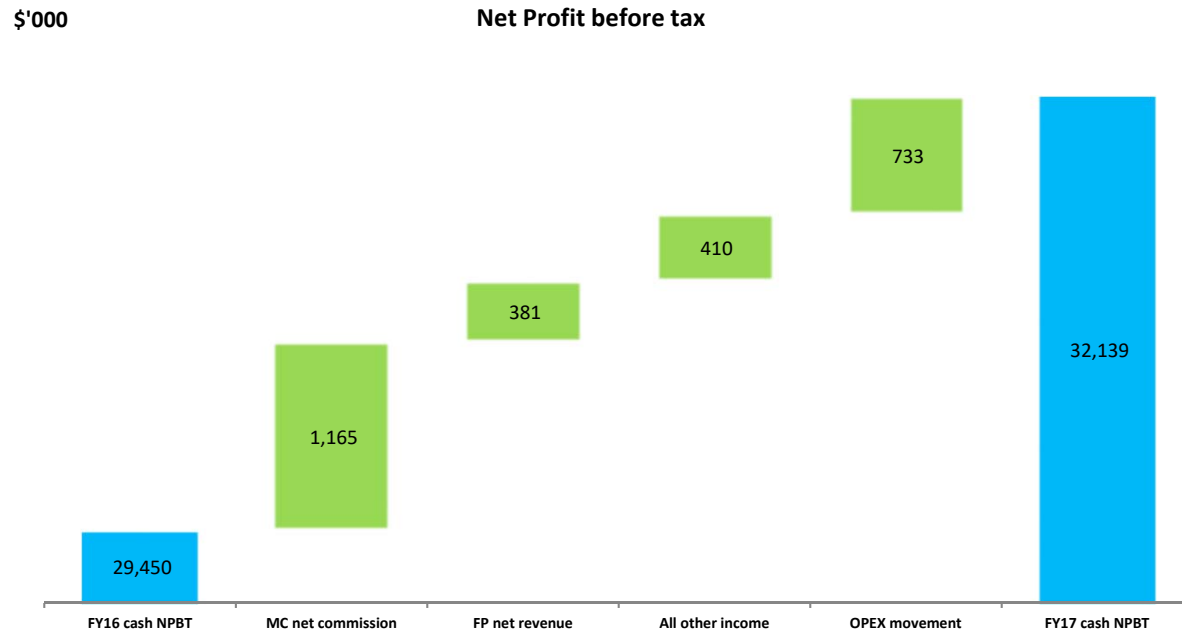


# Profit and loss statement

*^ 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.*

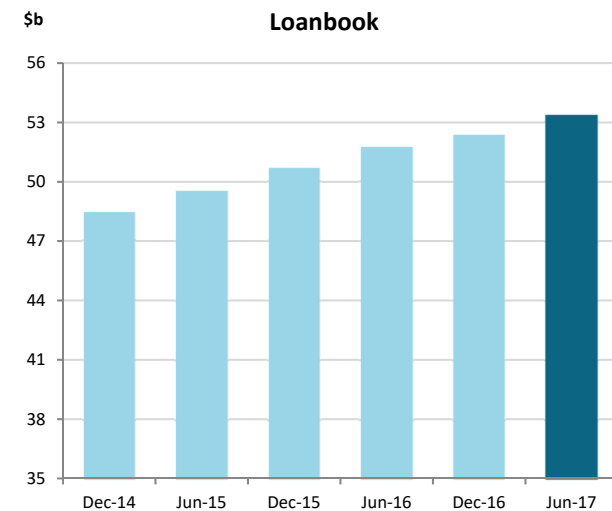
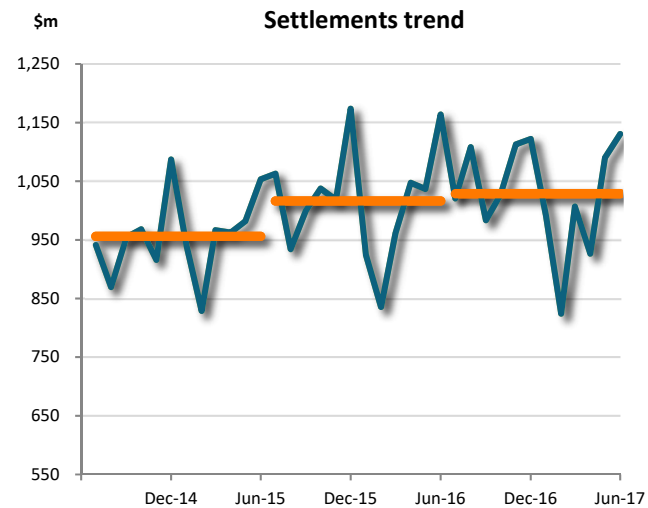
\$m	FY17			FY16		
	Cash^	Cash^	% change	IFRS	IFRS	% change
Origination commission received	75.08	72.31	3.8%	75.08	72.31	3.8%
Trailing commission received	96.39	95.08	1.4%	102.49	104.71	(2.1%)
	171.47	167.39	2.4%	177.57	177.01	0.3%
Origination commission paid	54.61	52.94	3.1%	54.61	52.94	3.1%
Trailing commission paid	59.10	57.85	2.2%	63.78	66.89	(4.6%)
	113.71	110.80	2.6%	118.39	119.83	(1.2%)
<b>Net core commission</b>	<b>57.76</b>	<b>56.59</b>	<b>2.1%</b>	<b>59.18</b>	<b>57.18</b>	<b>3.5%</b>
Diversified products net revenue	1.69	1.58	7.0%	1.69	1.58	7.0%
Financial Planning net revenue	2.07	1.69	22.5%	2.07	1.69	22.5%
HMC net revenue	0.81	1.35	(40.1%)	-	0.44	(100.0%)
Other income	5.43	4.58	18.4%	5.43	4.58	18.4%
<b>Gross profit</b>	<b>67.76</b>	<b>65.80</b>	<b>3.0%</b>	<b>68.37</b>	<b>65.48</b>	<b>4.4%</b>
Operating expenses	35.62	36.35	(2.0%)	35.62	36.35	(2.0%)
Share based remuneration	-	-	-	0.88	0.78	13.5%
Net profit before tax	32.14	29.45	9.1%	31.87	28.35	12.4%
<b>Net profit after tax</b>	<b>22.63</b>	<b>20.55</b>	<b>10.2%</b>	<b>22.18</b>	<b>19.54</b>	<b>13.5%</b>
EPS (cps)	18.1	16.5	9.7%	17.8	15.7	13.4%
DPS (cps)	17.5	16.5	6.1%	17.5	16.5	6.1%

Cash NPBT records strong growth and controlled expense



- Revenue growth in both the core broking business and financial advice arm drove 9% increase in net profit before tax
- Closure of HMC led to a fall in operating expenses in FY17 compared to FY16
- Business will continue to focus on revenue growth whilst prudently managing expenses

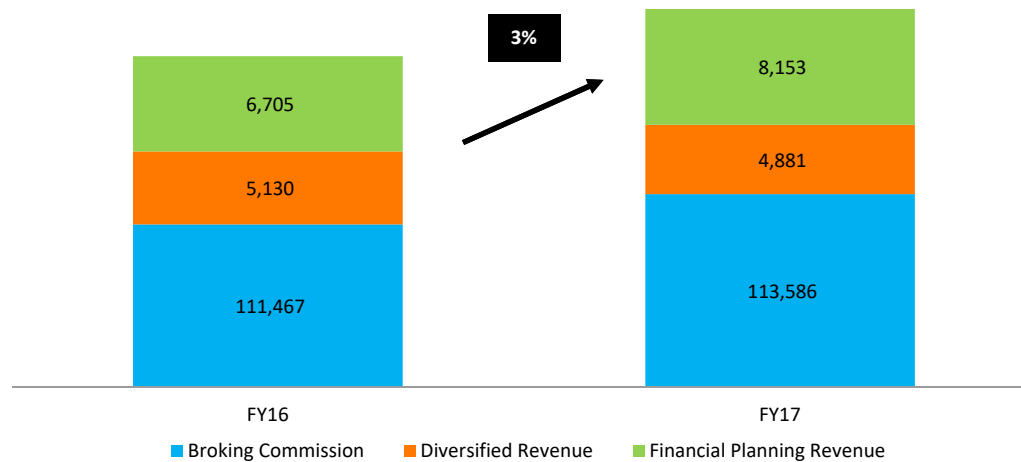
Settlements up 1.2% and strong recruitment results position the business for future growth



- Mortgage Choice achieves 'best ever' settlement result of \$12.3 billion
- Loan book grew 3.2% throughout FY17
- Strong recruitment results sets the business up for future growth

# Franchisee revenue continues to grow

*\*Broking commission excludes movement in clawback provision*

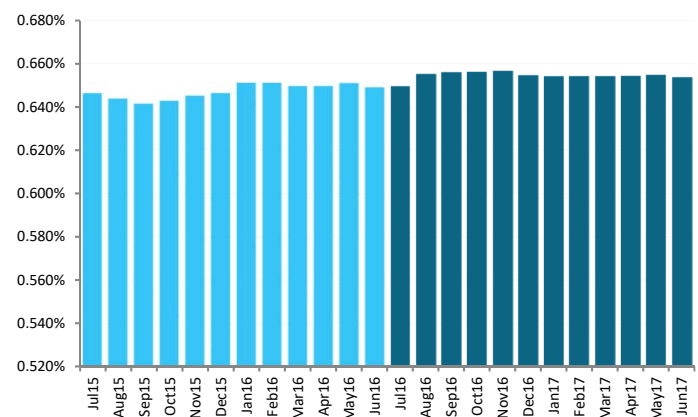


- Franchisee revenue continues to grow due to increases in mortgage broking and financial advice revenue
- Opportunities for franchisees to grow their assets and revenue through further adoption of diversified services

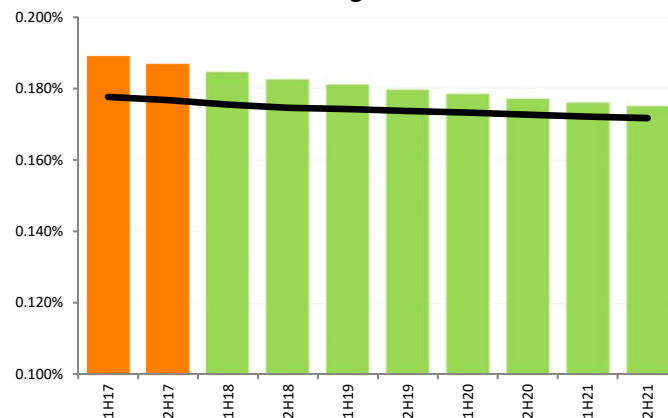
# Average upfront commission rates have improved

- 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

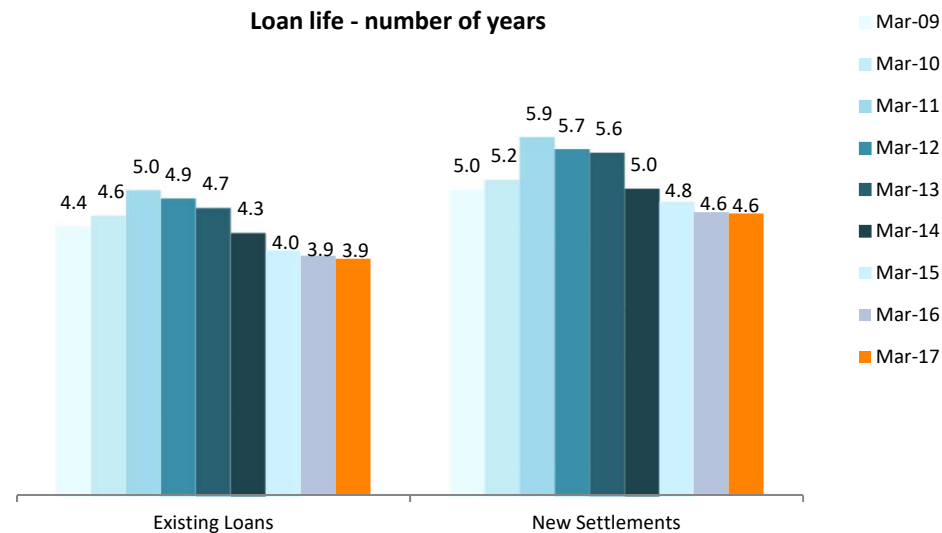


- Average upfront rate for FY17 is 0.6544%
- Average trail rate is predicted to be at 0.175% by June 2021 as book matures

# Loan life more consistent after prolonged period of rate stability

Prepared by: Deloitte Actuaries & Consultants Limited

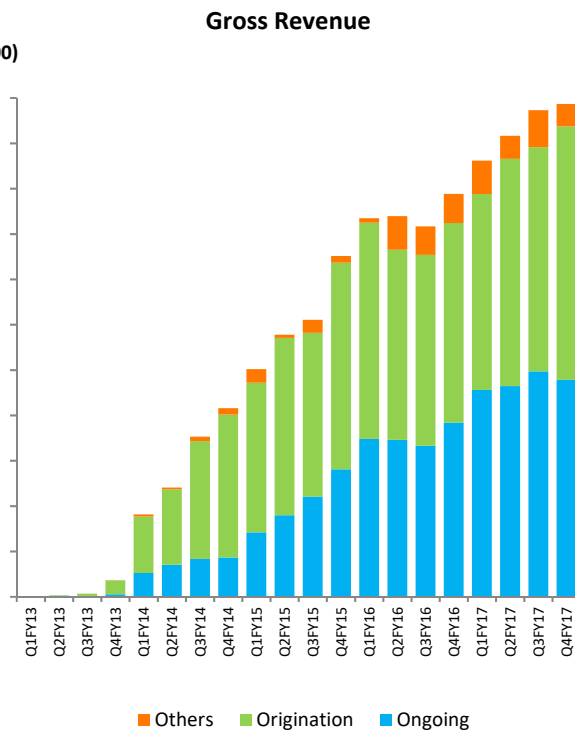
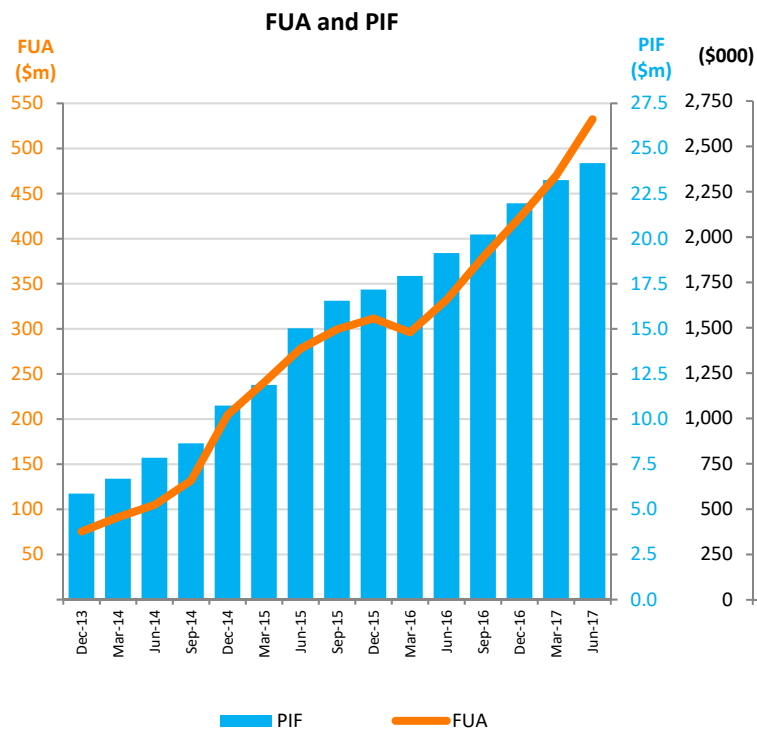
The loan life is a projection of the future at the date of calculation. Each year's loan life is based on the experience of that year, assuming this recurs in all the years.



- Negligible decline in average loan life, consistent with slightly higher run-off rates compared to FY16
- Decreasing loan life trend appears to have halted after 5 years
- Annual actuarial review resulted in a year end positive adjustment of \$1.6m to valuation of trail commission book

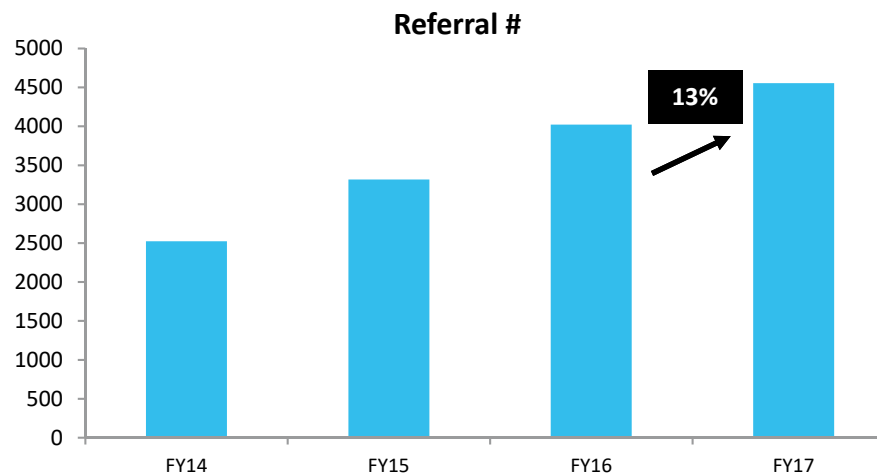
# Funds Under Advice and Premiums In Force continue to grow

*\*Includes insurance written by broking network*



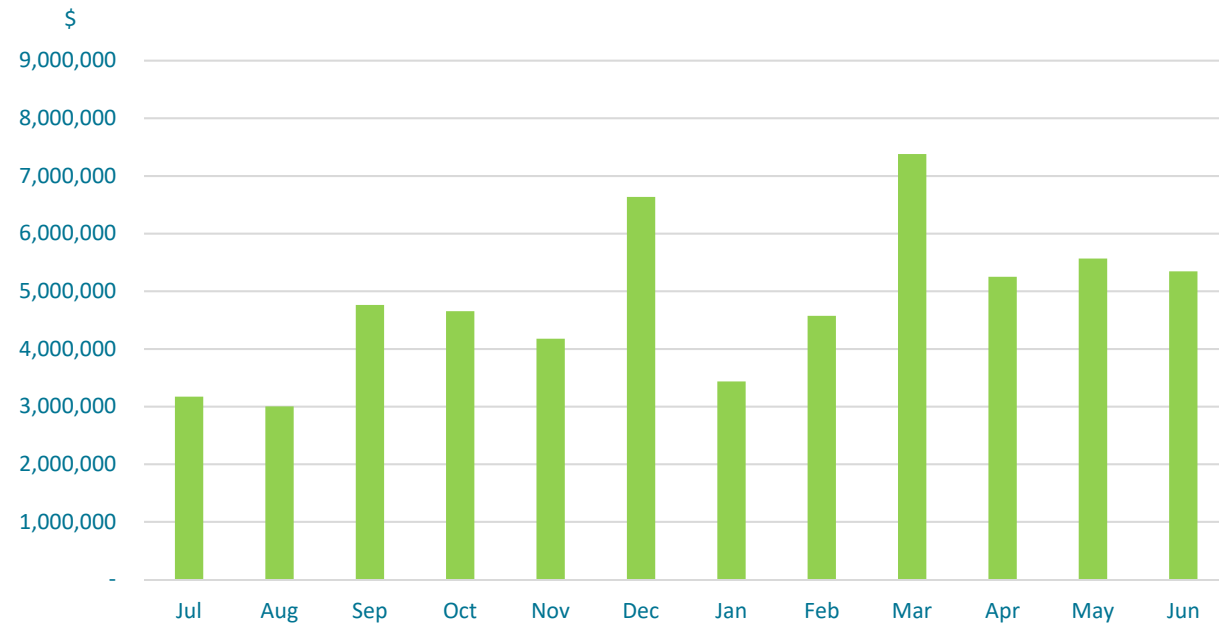


Step up in referral numbers as financial advice business matures



- Utilisation growing – 49% of brokers now refer customers on a regular basis
- As the financial advice business continues to mature and the relationships between brokers and advisers strengthen, we will see further natural uplift in referrals

## Strong growth in Mortgage Choice Asset Finance settlements



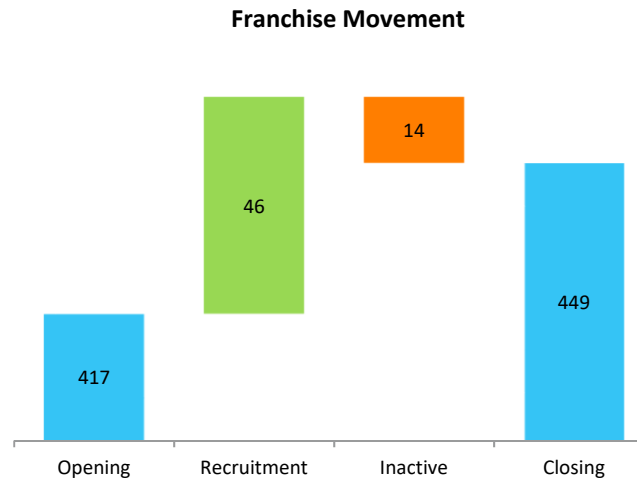
- Network utilisation increased from 32% to 42% on a quarterly basis (YOY) in June

# 3. Operations

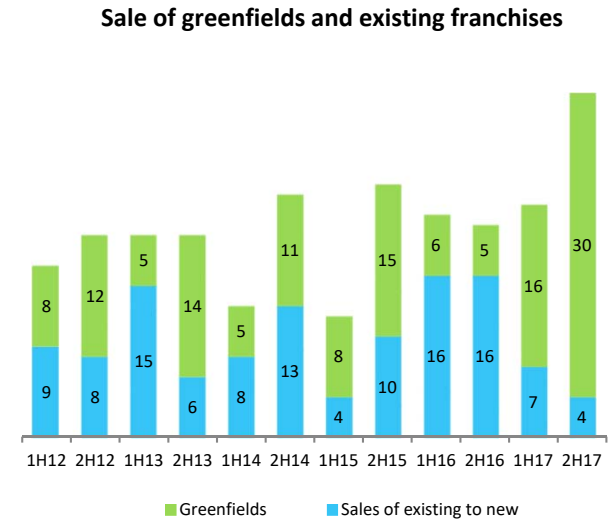


Record number of greenfield franchises recruited

Franchise Movement

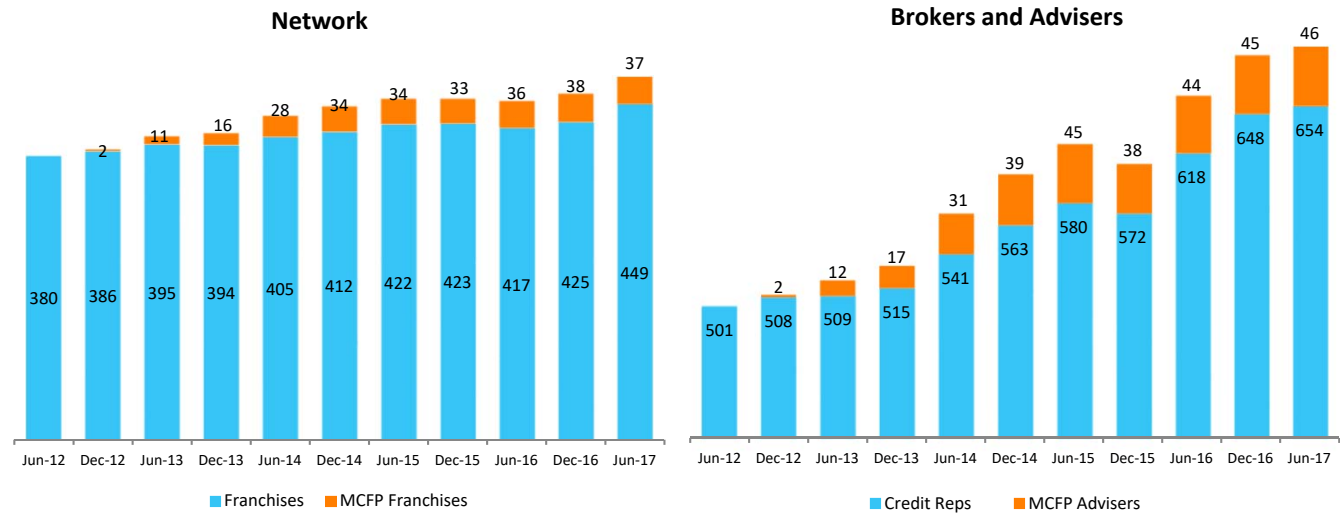


Sale of greenfields and existing franchises



- 46 Greenfields recruited throughout FY17, marking a new record for the business
- The Company has reaped the benefits of having a dedicated Mortgage Choice growth team
- New induction and continued support program, Accelerate, helping new recruits be more productive faster

# Business continues to grow number of mortgage brokers



- Limited Credit Representative incentive encouraged people within the network to upskill
- Highest number of credit representatives since the GFC
- Adviser numbers stable and will grow as required to handle increased referrals

Brand awareness given a boost through growth in retail shopfronts and branded cars



- Mortgage Choice continues to enhance its local brand awareness and footprint, with now approximately 150 retail shopfronts nationwide, and over 100 branded cars

## Collaborative marketing activities bring the brand to life in local communities



- Mortgage Choice matches the marketing spend of the local collaborative franchise groups
- 37% of the network now engaged in collaborative marketing activities

Mortgage Choice branded offerings increase brand engagement and improve retention

Mortgage Choice Home Loans

- Competitive pricing, backed by industry leading turn around times and strong customer service, drove increased take up of the Mortgage Choice branded home loan
- The home loan is included in the Mortgage Choice 'Paid the Same' philosophy

Mortgage Choice Asset Finance

- More than 1,600 loans financed through Mortgage Choice Asset Finance
- 43% of the network sold at least one MCAF loan in a quarter, compared to 32% last year

Mortgage Choice Financial Planning

- Launched industry leading Retirement Income Calculator
- Launched new MoneyTrack application to help customers better manage their finances
- 13% increase in number of referrals from core broking business

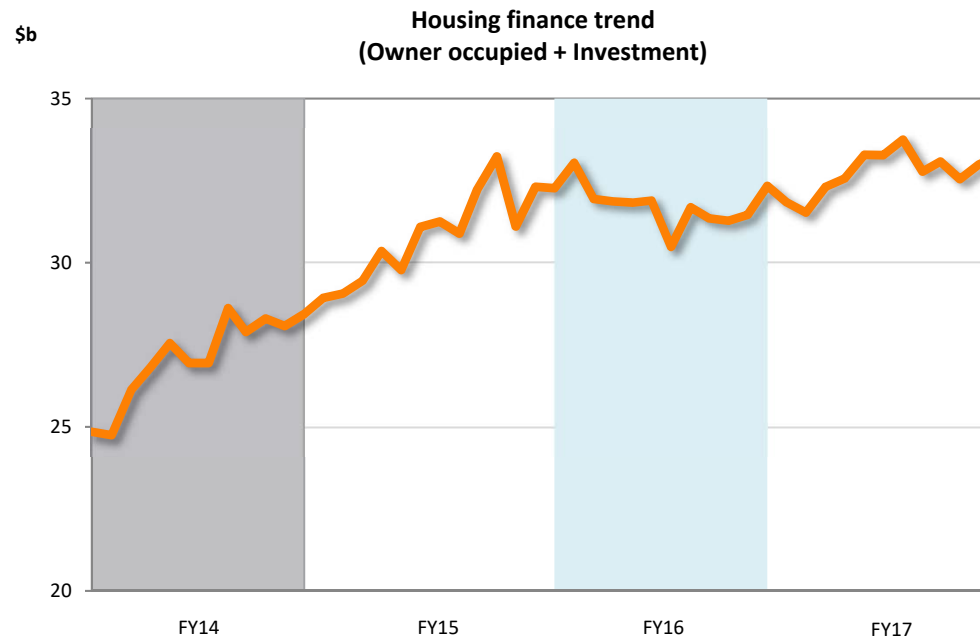


# 4. Market update



# Home loan market remains robust

*Housing finance source: ABS 5609  
Table 11 – Housing Finance,  
Australia, Jun17 (Seasonally  
adjusted series)*



- Housing finance commitments remain high, with \$33 billion in approvals per month now the new black
- Mortgage Choice remains well placed to grow even if the heat comes out of the housing market

Heightened economic and regulatory changes drive complexity presenting Mortgage Choice with an opportunity to help Australians make sense of it all



### Interest rates

- RBA cut the cash rate in May and August 2016 then moved into a prolonged period of interest rate stability
- Australia's lenders are moving out of cycle with the RBA
- Lenders have increased and decreased their rates across certain products over the last few months

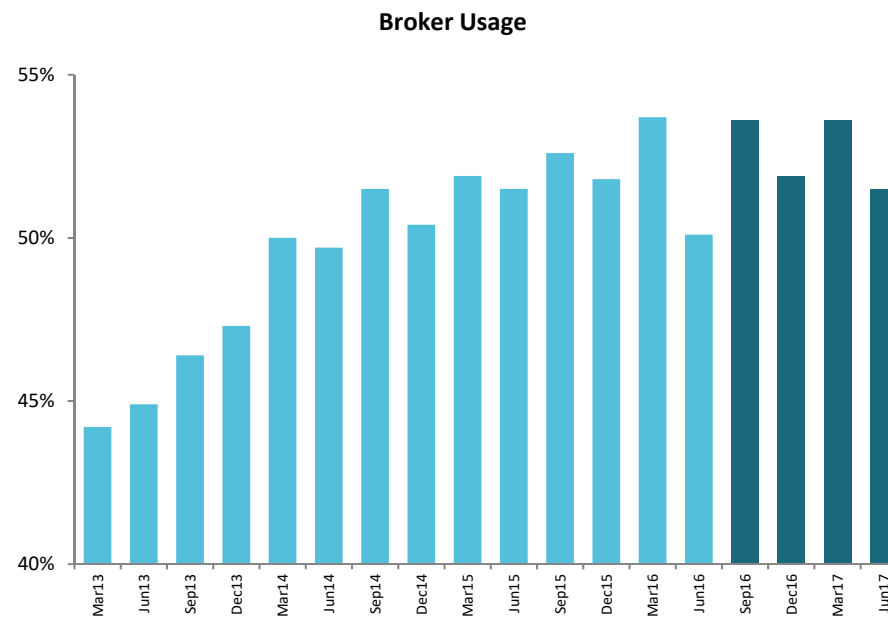


### Regulatory changes

- APRA caps on investment lending growth continue to create policy and pricing change for investment lending
- In March, APRA asked lenders to limit interest-only lending to 30% of all new residential mortgages driving further policy and pricing changes
- Heightened complexity in the market has driven record levels of customers to Mortgage Choice

# Broker market share continues to grow

*Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Jun17 report*

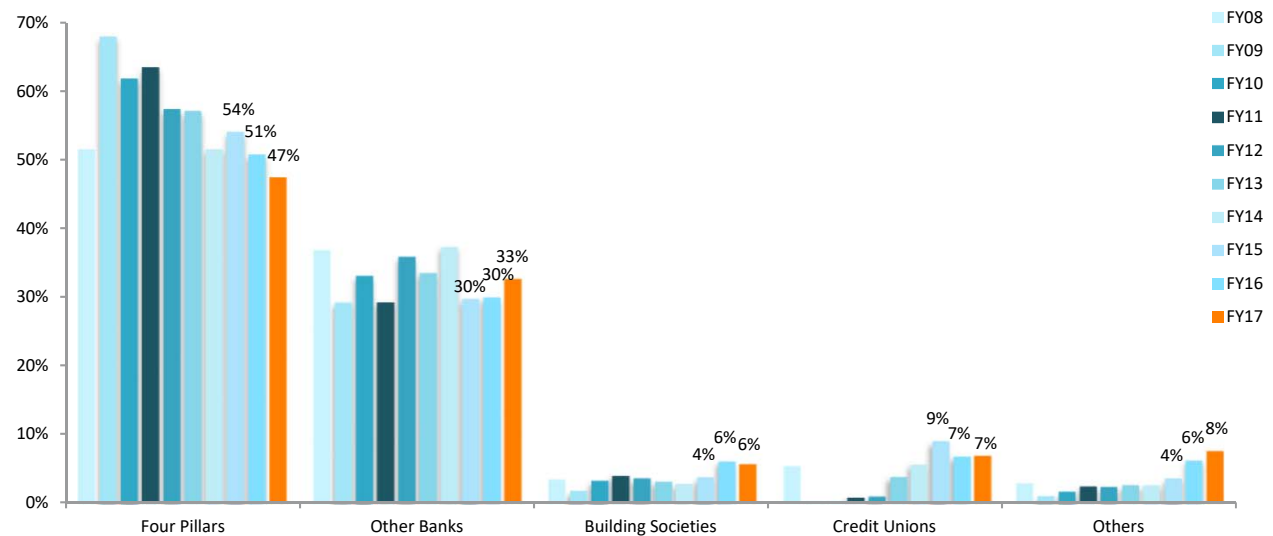


- Consumers value the expertise and experience of brokers, which is why their market share is more than 50%
- As brokers continue to diversify their service proposition, they will create deeper customer relationships leading to further growth in market share

# Mortgage Choice settlements by lender

Annual Figures from FY08 to FY17

Four Pillars includes CBA, ANZ, NAB (Homeside) 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 fell from 66% to 62%
- Smaller banks and credit unions more flexible and less impacted by regulatory changes, which has resulted in greater business opportunities for them

# 5. Focus areas for FY18



# Our strategy for tomorrow and the future

## Vision

To be Australia's leading provider of financial choices and advice, delivering exceptional customer value and profitability for our franchisees and shareholders

## Purpose

To create a life of abundance for all Australians

### Success in FY2018

Increase and diversify franchisee revenue and asset growth	Distribution growth	Deeper customer relationships	NPAT growth
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### Success in FY2020

Omni-channel customer experience	Broader range of products	Distribution growth	Customer centric culture	Increased brand consideration
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## Beliefs

- We deliver a highly valuable service to our customers via our service standards – Care, Solve and Amaze
- We do the right thing
- We attract the best and brightest in the industry and allow them to grow and prosper
- We make a positive contribution to our community

# FY17 Summary

	<b>FY17</b>	<b>FY16</b>	<b>% Change*</b>	
Cash NPAT (\$m)	22.6	20.5	10.2%	▲
IFRS NPAT (\$m)	22.2	19.5	13.5%	▲
Home Loan Settlements (\$m)	12,345	12,196	1.2%	▲
FUA (\$m)	532.4	332.1	60.3%	▲
PIF (\$m)	24.2	19.2	26.0%	▲
FP gross profit (\$m)	2.2	1.7	26.0%	▲
Greenfield franchises	46	11	318.2%	▲
Credit Reps	654	618	5.8%	▲
Dividend (\$c)	17.5	16.5	6.1%	▲

\* Percentage change is based on underlying figures



# Questions?



# Disclaimer

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