

**FY17**

Half Year ending December 2016

# FY17 Half Year Results presentation

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

Today:

1. Introduction
2. Financial performance
3. Progress against FY17 focus
4. Appendices

# Introduction

## Highlights summary



### Record half year lending result

Settlements of \$6.4b



### Financial Planning profitable

Consistently profitable on a monthly basis



### Cash NPAT up by 16.2%

Assisted by closure of HMC



### Dividend 8.5c

Record interim dividend - up from 8.0c 1H16

# 1H17 performance highlights

		1H17	1H16	1H17 vs 1H16	
NPAT	- Cash	11.7 m	10.1 m	16.2%	▲
	- IFRS	11.4 m	10.7 m	6.4%	▲
Lending	- Loan book^	52.4 b	50.7 b	3.3%	▲
	- Settlements	6.4 b	6.2 b	2.4%	▲
Wealth	- FUA	423.1 m	311.6 m	35.8%	▲
	- PIF	22.0 m	17.2 m	27.9%	▲
Basic EPS	- Cash	9.4 c	8.1 c	16.0%	▲
	- IFRS	9.2 c	8.6 c	7.0%	▲
DPS	- Ordinary	8.5 c	8.0 c	6.3%	▲

<sup>^</sup>Includes residential and commercial

# Financial performance

# Profit and loss statement

^ Cash is based on accruals accounting; excludes share based remuneration and the net present value of future trailing commissions receivable and payable. This is an extract from our half year 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)

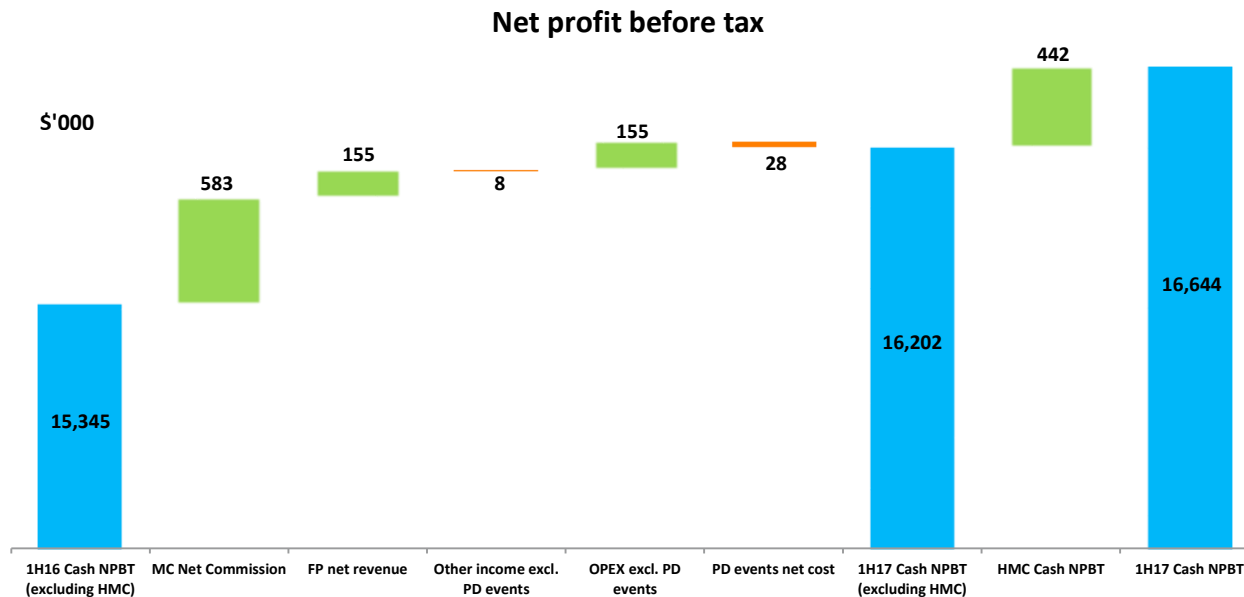
1H17 Cash^	1H16 Cash^	% change
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38.96	37.32	4.4%
48.27	47.40	1.8%
87.23	84.72	3.0%
28.46	27.10	5.0%
29.41	28.85	2.0%
57.88	55.95	3.4%
<b>29.35</b>	<b>28.77</b>	<b>2.0%</b>
0.81	0.84	(3.6%)
0.93	0.78	19.9%
0.44	0.84	(47.6%)
1.39	3.13	(55.6%)
<b>32.93</b>	<b>34.36</b>	<b>(4.2%)</b>
16.28	19.87	(18.0%)
-	-	-
16.64	14.49	14.8%
<b>11.72</b>	<b>10.09</b>	<b>16.2%</b>
9.4	8.1	16.0%
8.5	8.0	6.3%

1H17 IFRS	1H16 IFRS	% change
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38.96	37.32	4.4%
51.14	53.24	(3.9%)
90.10	90.56	(0.5%)
28.46	27.10	5.0%
31.63	32.91	(3.9%)
60.09	60.01	0.1%
<b>30.01</b>	<b>30.55</b>	<b>(1.8%)</b>
0.81	0.84	(3.6%)
0.93	0.78	19.9%
-	0.46	(100.0%)
1.39	3.13	(55.6%)
<b>33.15</b>	<b>35.76</b>	<b>(7.3%)</b>
16.28	19.87	(18.0%)
0.44	0.32	37.2%
16.43	15.57	5.5%
<b>11.43</b>	<b>10.75</b>	<b>6.4%</b>
9.2	8.6	7.0%
8.5	8.0	6.3%

## NPBT records strong growth



- Cash net profit for the half is driven by an increase in net commission income, an increase in revenue generated by FP, and a strong control on OPEX
- The timing of the national professional development events has changed. In FY16 the professional development events occurred in the first half of the year, but in FY17, these events will occur in the second half of the year. This affects the direct comparison for 'other income' and 'operating expense' between the two periods, but the impact to the net profit before tax result is essentially neutral
- In comparison to 1H17, 1H16 absorbed all of the costs associated with the closure of the Help Me Choose division. The division continues the orderly collection of trailing commission for products introduced prior to closure

# Divisional results

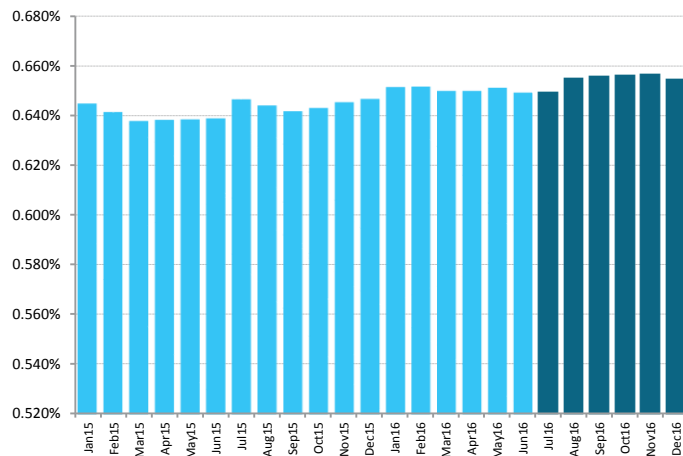
## Divisional results

\$000	1H17			1H16			1H15		
	MC	FP	HMC	MC	FP	HMC	MC	FP	HMC
Settlements	6.4b			6.2b			5.7b		
Gross profit (IFRS)	32,122	1,023	-	34,514	787	458	32,417	553	1,725
Gross profit (Cash)	31,459	1,023	442	32,728	787	844	30,095	553	1,559
OPEX	15,300	981	-	16,996	1,174	1,696	16,228	1,049	2,312
EBITDA (Cash)	16,724	55	441	16,258	(355)	(785)	14,106	(463)	(690)
NPAT (IFRS)	11,418	16	-	11,884	(284)	(851)	10,753	(359)	(422)
NPAT (Cash)	11,375	35	309	10,958	(266)	(603)	9,836	(342)	(522)
YOY Growth (%)	4%	113%	151%						

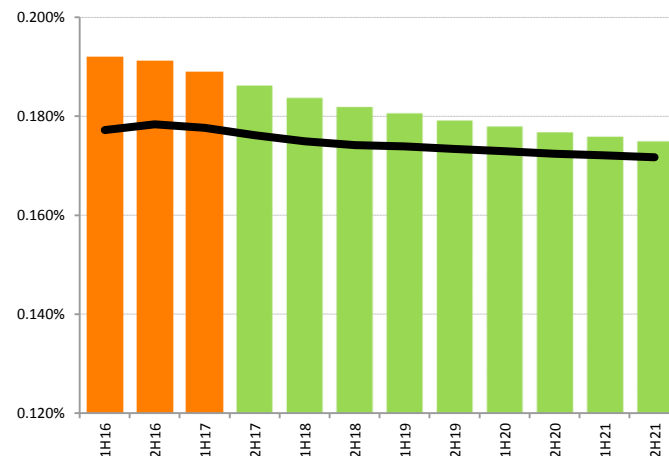
- Core broking business cash NPAT up 4%
- Financial Planning business cash NPAT up 113%, with this business delivering a monthly profit result in 5 out of the 6 months this half
- HMC division was shut down, but continues to receive trailing commission from products introduced prior to closure; all costs of closure included in FY16

# Average upfront commission rates have improved

## Average upfront rate



## Average trail rate



Average rate total book



Average rate total book (estimated)



Average rate new settlements\*

\* Settlements post GFC changing commission rates

- Average upfront rate for 1H17 is 0.655%
- Average trail rate for 1H17 is 0.189%

## Progress against FY17 focus areas

## FY17 focus areas



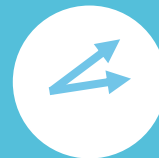
Increase and diversify  
franchisee revenue



Market share growth

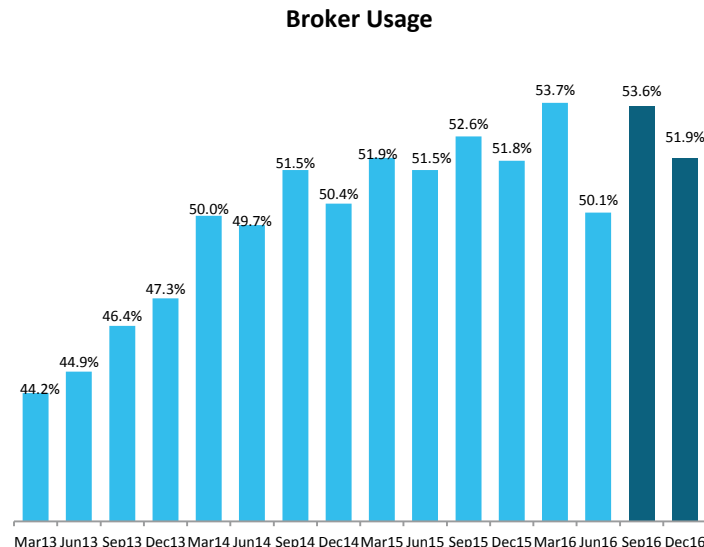
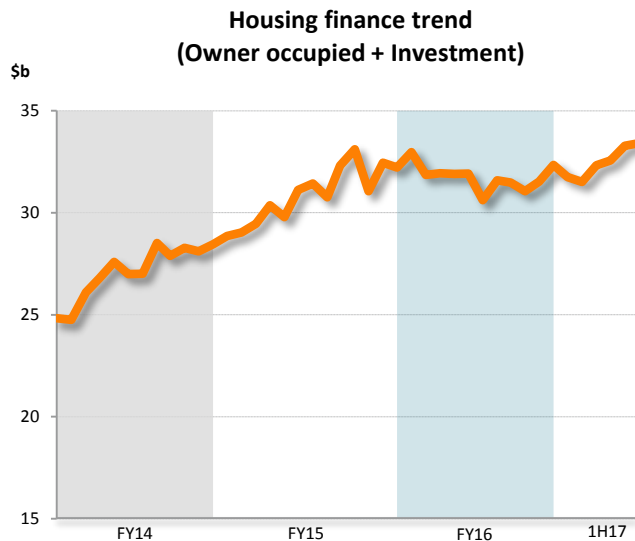


Brand awareness and  
engagement



NPAT growth  
(positive jaws)

# Home loan market remains robust



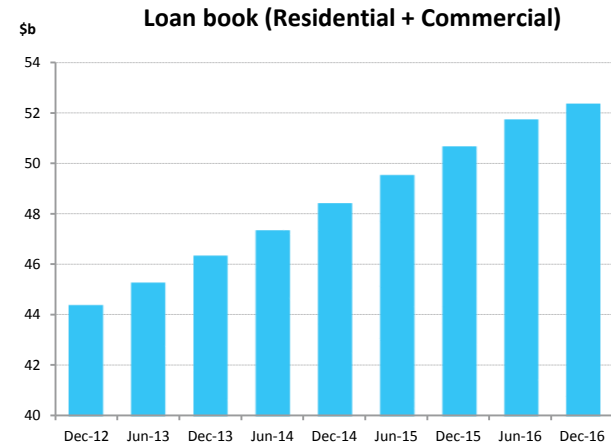
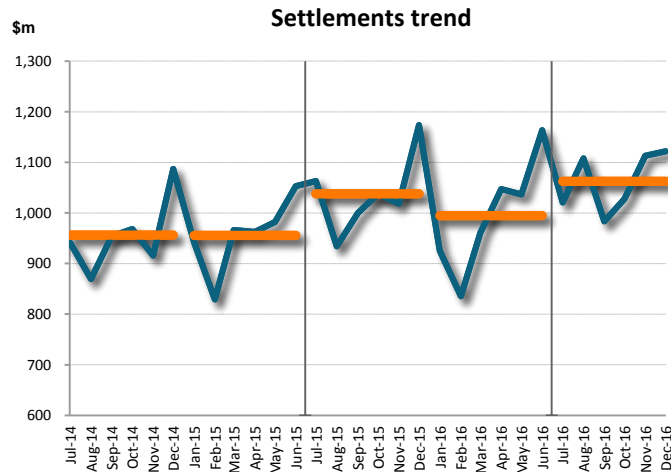
Housing finance source: ABS 5609

Table 11 – Housing Finance, Australia, Dec16 (Seasonally adjusted series)

Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Dec16 report

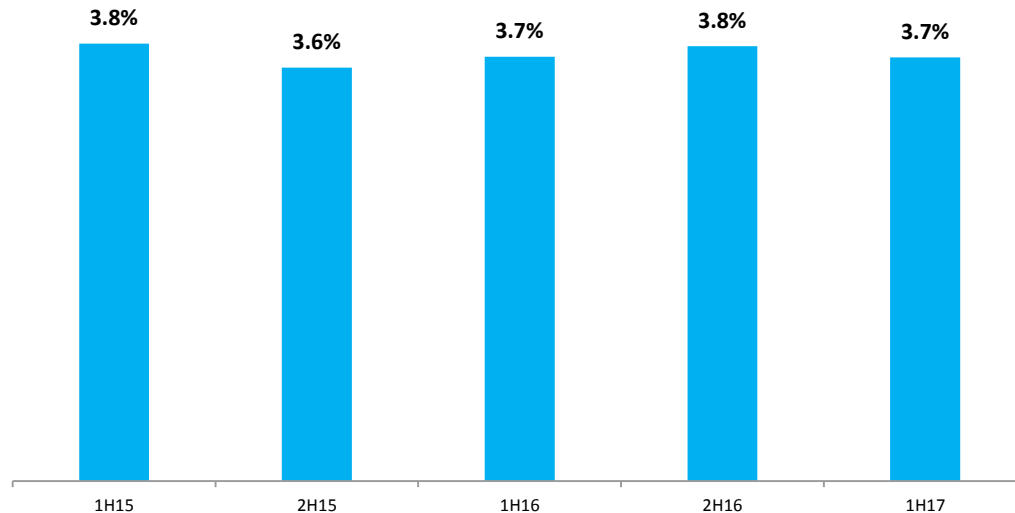
- Continued strength in overall level of housing finance commitments provides Mortgage Choice with plenty of business opportunities
- Broker usage remains above 50%
- Mortgage Choice continues to be well placed to capture market share, even if the heat comes out of the housing market

# Record home loan settlements at \$6.4b for the first half



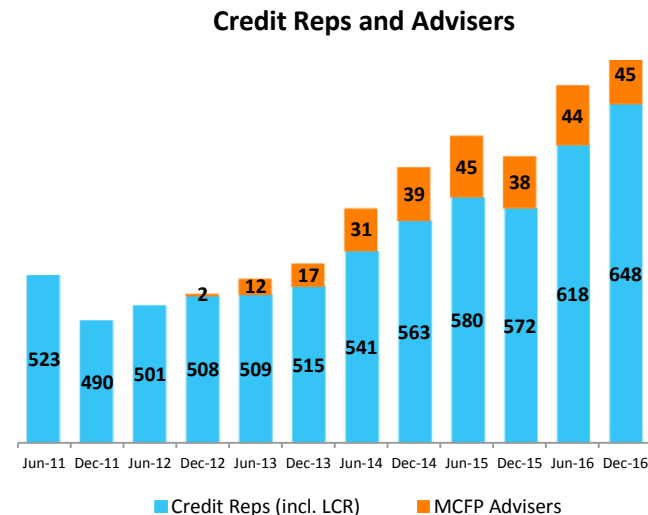
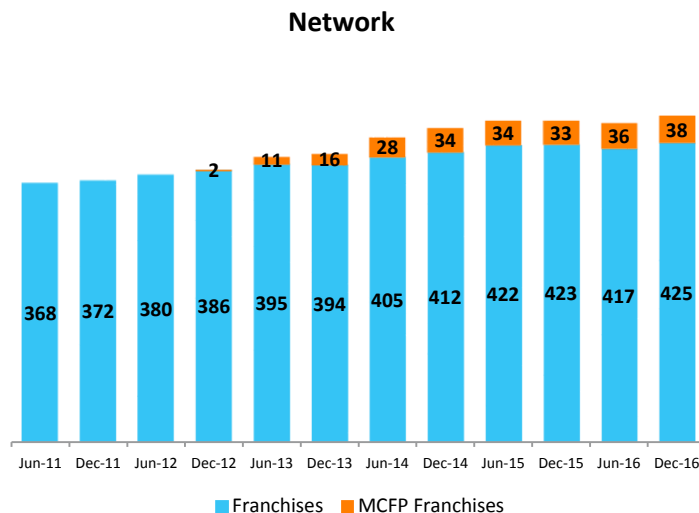
- Mortgage Choice settled \$6.4 billion in home loans throughout the first half of the year, which is a new record for the business
- Loan book continues to grow despite continued run-off as a result of the low interest rate environment

## Market Share stabilises



- Mortgage Choice market share has stabilised at 3.7%, however, there is more work to be done in this area
- Numerous strategies are in place to help Mortgage Choice grow its footprint and deliver profitable market share growth over the coming years

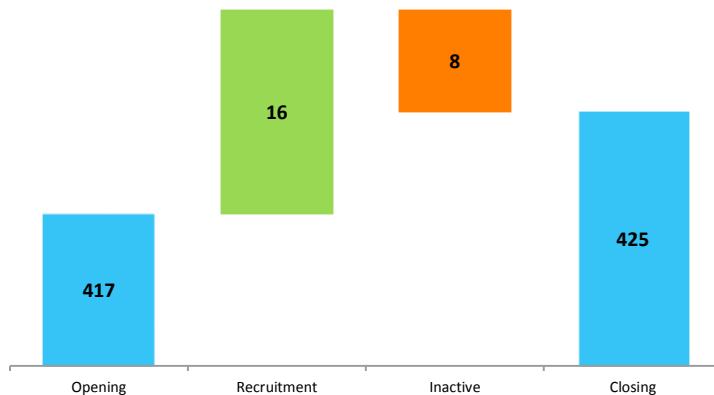
Strong growth in broker and franchise numbers, but more growth needed



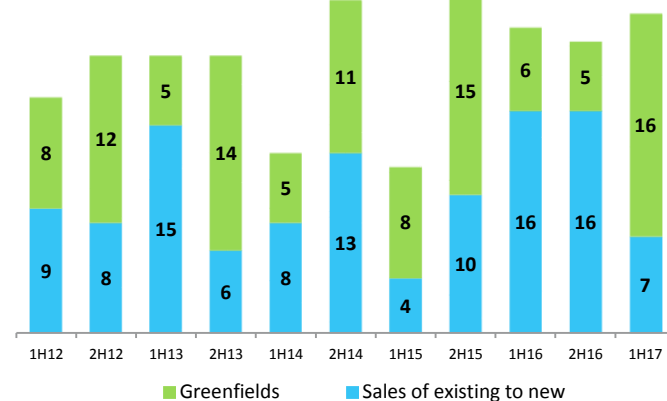
- Strong growth in franchise numbers
- The Business' strategy of upskilling admin assistants to limited credit representatives is delivering results, with improvements in franchisee productivity, as well as an increase in the number of general insurance and asset finance sales
- A new growth and development function is in place, which is helping to drive recruitment and accelerate broker productivity

Continued  
focus on  
network  
growth,  
with 16  
greenfields  
appointed

Franchise Movement



Sale of greenfields and existing franchises



- With a strong pipeline of potential franchisees, Mortgage Choice is forecasting more growth in this area throughout the second half of the year

# A strong push for more retail sites



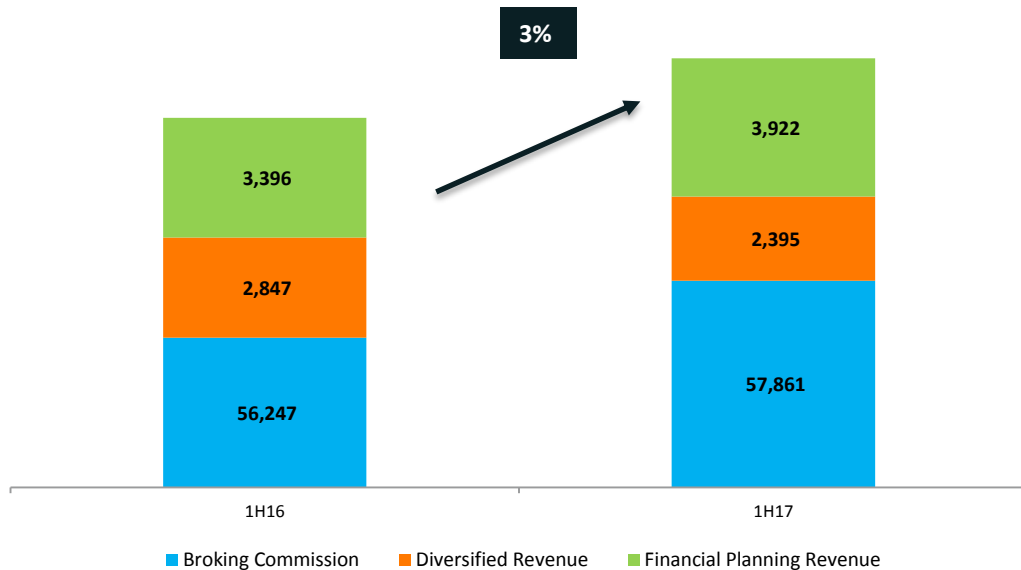
- Mortgage Choice's retail footprint continues to grow, with an additional 13 shopfronts added in 1H17

# Mortgage Choice's local brand presence continues to grow



- The number of franchisees participating in the Mortgage Choice Collaborative Marketing Program continues to grow (Mortgage Choice matches the marketing spend of local collaborative franchise groups)

## Franchisee revenue continues to climb

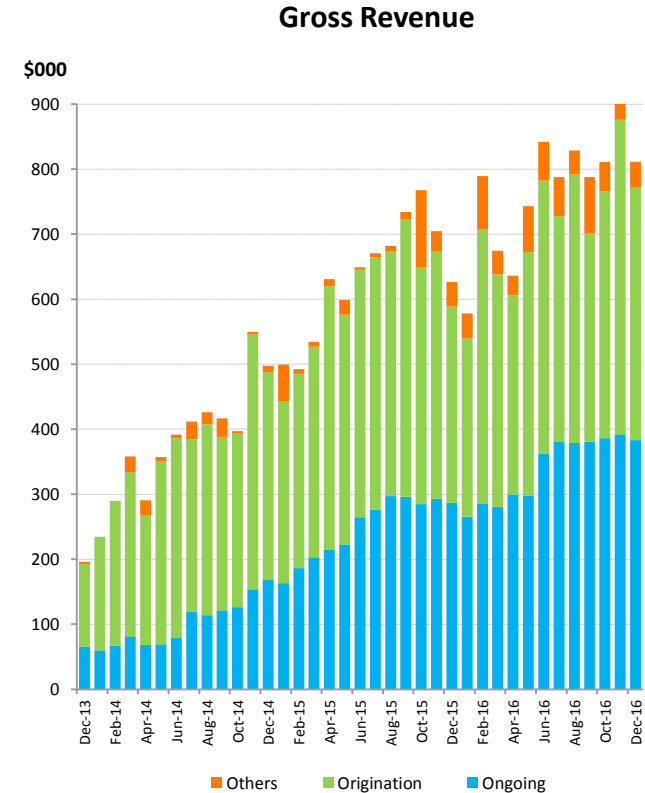
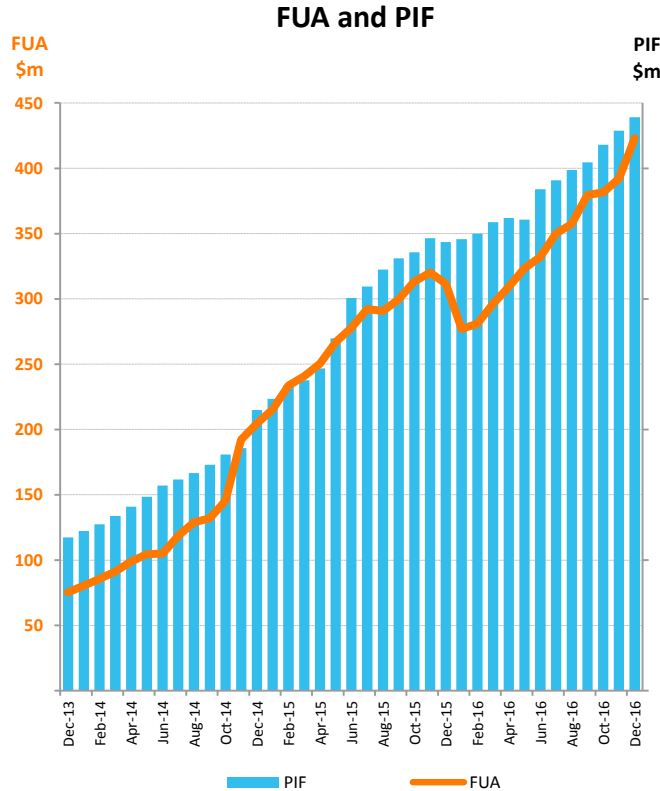


- Continued franchisee revenue growth primarily attributed to growth core broking business as well as financial planning

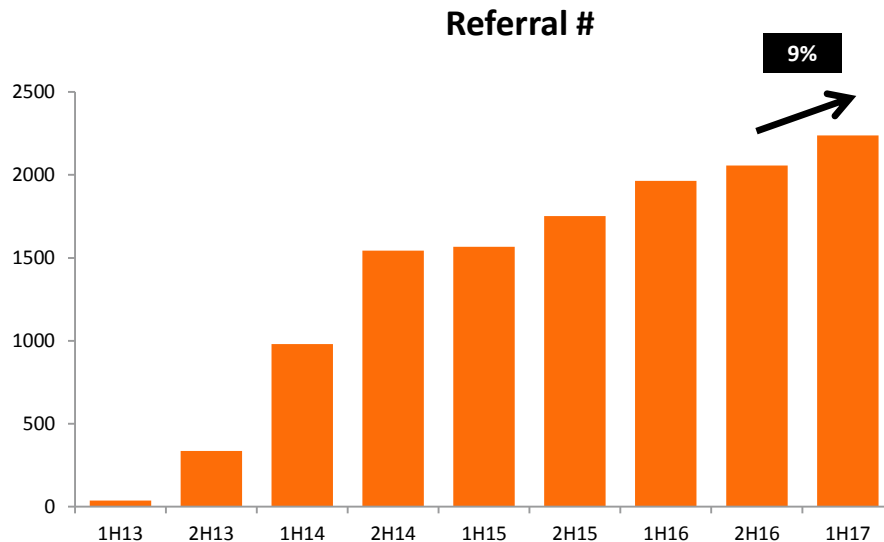
*\*Broking Commission excludes movement in clawback provision*

# Growth in FUA and PIF helps financial planning deliver consistent monthly profit result

*\*Includes insurance written by broking network*

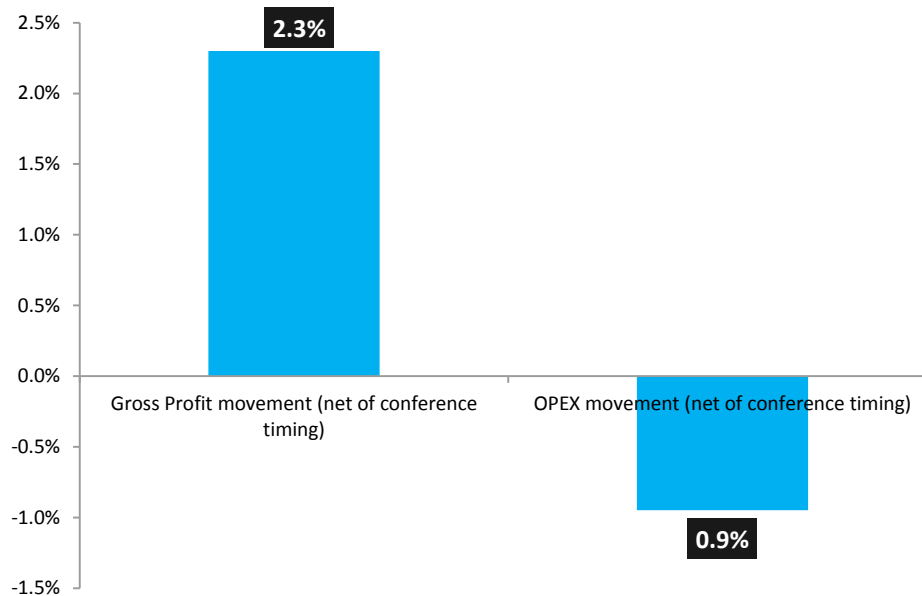


Referrals to financial planning business on the rise, but more opportunities exist



- Referrals to the Mortgage Choice Financial Planning business are growing, but there are still plenty of opportunities in this area
- New strategies have been implemented to open more conversations about the value of financial advice and, in turn, increase referrals

Gross profit  
continues  
to grow  
faster than  
expenses



- Expense management and ROI will remain a key focus for the Business in FY17 and beyond

*\*On cash basis and excluding HMC*

## Summary

- Record settlement numbers at \$6.4 billion for the half
- Financial planning consistently in the black on a monthly basis
- Recruitment initiatives successfully driving network growth, putting Mortgage Choice in a good position to take advantage of the strong market conditions
- Significant improvements in local brand presence via growth in the retail footprint and increased participation in collaborative marketing programs
- Strong cash NPAT growth (16.2%), partially driven by the closure of HMC
- The Company continues to deliver positive jaws
- Fully franked dividend of 8.5c (up from 8c 1H16)

# Strategy on a page

## Vision

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 FY2017

Increase & diversify franchisee revenue	Brand awareness and engagement	Market share growth	NPAT growth (positive jaws)
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### Success in FY2020

Omni-channel customer experience	Broader range of products	Distribution growth	Customer centric culture
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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.

Questions?

# Appendices

# Yearly stats

## – P/L

\$m	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17
Origination inc	27.99	24.16	25.51	23.59	25.98	25.08	26.03	25.94	31.72	31.29	34.98	35.02	37.32	34.99	38.96
Origination exp	(20.25)	(16.99)	(18.14)	(16.62)	(18.43)	(17.95)	(18.78)	(18.59)	(23.08)	(22.69)	(25.83)	(25.66)	(27.10)	(25.84)	(28.46)
Cash Trail inc	41.48	41.45	42.30	41.48	42.13	42.32	43.40	43.28	43.94	43.47	44.27	45.06	47.40	47.69	48.27
Cash Trail exp	(25.78)	(25.55)	(25.39)	(25.15)	(24.99)	(25.08)	(25.69)	(25.60)	(25.89)	(26.30)	(26.65)	(27.48)	(28.85)	(29.00)	(29.41)
Net Upfront	7.74	7.17	7.37	6.97	7.55	7.13	7.25	7.35	8.64	8.60	9.15	9.35	10.22	9.14	10.49
Net Trail	15.70	15.90	16.91	16.33	17.13	17.24	17.71	17.68	18.05	17.17	17.62	17.58	18.55	18.68	18.86
	23.44	23.08	24.28	23.30	24.68	24.38	24.96	25.02	26.69	25.77	26.77	26.93	28.77	27.83	29.35
Other Income	0.89	1.51	1.36	1.95	2.45	2.50	3.45	3.64	4.31	4.79	5.43	4.58	5.59	3.62	3.58
Cash PAT	7.79	7.04	8.84	7.08	6.50	8.52	7.82	7.95	8.97	9.74	8.97	9.59	10.09	10.46	11.72
IFRS PAT	9.76	13.72	8.79	18.67	6.44	12.02	7.51	11.20	9.66	8.80	9.97	8.88	10.75	8.79	11.43
After tax gain on Loankit sale	-	-	-	-	-	-	-	-	1.34	-	-	-	-	-	-
Cash PAT including gain on sale	7.79	7.04	8.84	7.08	6.50	8.52	7.82	7.95	10.31	9.74	8.97	9.59	10.09	10.46	11.72
IFRS PAT including gain on sale	9.76	13.72	8.79	18.67	6.44	12.02	7.51	11.20	11.00	8.80	9.97	8.88	10.75	8.79	11.43
Cash e.p.s.	6.5 c	5.9 c	7.3 c	6.0 c	5.4 c	7.1 c	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
IFRS e.p.s.	8.2 c	11.5 c	7.3 c	15.6 c	5.4 c	10.0 c	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
Div p.s.	5.5 c	6.5 c	6.0 c	7.0 c	6.0 c	7.0 c	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
Upfront Payout	72.3%	70.3%	71.1%	70.4%	70.9%	71.6%	72.2%	71.7%	72.8%	72.5%	73.8%	73.3%	72.6%	73.9%	73.1%
Trail Payout	62.2%	61.6%	60.0%	60.6%	59.3%	59.3%	59.2%	59.2%	58.9%	60.5%	60.2%	61.0%	60.9%	60.8%	60.9%
Total Payout	66.3%	64.8%	64.2%	64.2%	63.8%	63.8%	64.1%	63.8%	64.7%	65.5%	66.2%	66.4%	66.0%	66.3%	66.4%
<b>Volumes MC</b>															
Settlements # ('000)	18.73	15.36	15.91	14.56	15.58	15.86	15.77	15.68	18.66	17.86	19.24	18.81	19.80	19.10	20.01
Settlements \$b	4.82	4.07	4.33	3.99	4.34	4.39	4.43	4.35	5.26	5.11	5.74	5.74	6.23	5.97	6.37
Approvals \$b	5.39	4.59	5.03	4.50	5.11	5.04	5.09	5.28	6.13	6.04	6.90	6.55	7.22	6.78	7.24
Market \$b	138.61	117.70	122.42	113.02	123.19	119.83	129.74	134.12	160.15	160.94	181.16	181.93	198.15	180.19	196.54
Market Share	3.89%	3.90%	4.11%	3.98%	4.14%	4.20%	3.93%	3.94%	3.83%	3.75%	3.81%	3.60%	3.65%	3.76%	3.69%
Avg Residential Loan Book \$b	36.97	38.40	39.73	40.68	41.68	42.76	43.80	44.55	45.56	46.48	47.65	48.65	49.73	50.70	51.54

# Balance sheet

	Dec-16 \$'000	Jun-16 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,805	8,068
Trade and other receivables	102,918	102,140
Total current assets	<u>109,723</u>	<u>110,208</u>
<b>Non-current assets</b>		
Receivables	248,325	245,717
Property, plant and equipment	539	450
Intangible assets	6,191	6,475
Total non-current assets	<u>255,055</u>	<u>252,642</u>
<b>Total assets</b>	<u>364,778</u>	<u>362,850</u>
<b>EQUITY</b>		
Contributed equity	7,365	6,804
Reserves	1,542	1,664
Retained profits	94,714	93,859
<b>Total equity</b>	<u>103,621</u>	<u>102,327</u>

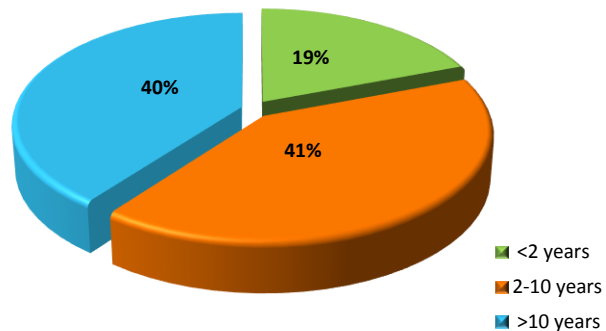
	Dec-16 \$'000	Jun-16 \$'000
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	68,593	69,940
Current tax liabilities	990	1,159
Provisions	902	1,084
Total current liabilities	<u>70,485</u>	<u>72,183</u>
<b>Non-current liabilities</b>		
Trade and other payables	151,979	150,015
Deferred tax liabilities	37,998	37,661
Provisions	695	664
Total non-current liabilities	<u>190,672</u>	<u>188,340</u>
<b>Total liabilities</b>	<u>261,157</u>	<u>260,523</u>
<b>Net assets</b>	<u>103,621</u>	<u>102,327</u>

# Cash flow statement

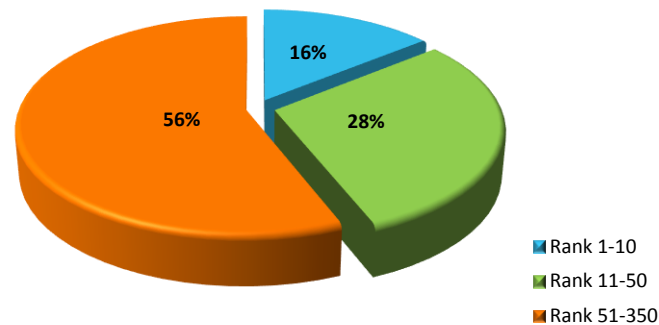
	Dec-16 \$'000	Dec-15 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	105,636	108,351
Payments to suppliers and employees (inclusive of goods and services tax)	(91,118)	(95,772)
	14,518	12,579
Income taxes paid	(4,823)	(3,454)
<b>Net cash inflow from operating activities</b>	9,695	(9,125)
<b>Cash flows from investing activities</b>		
Payments for property, plant, equipment and intangibles	(600)	(340)
Proceeds from sale of property, plant and equipment	1	-
Interest received	220	208
<b>Net cash (outflow) from investing activities</b>	(379)	(132)
<b>Cash flows from financing activities</b>		
Dividends paid to company's shareholders	(10,579)	(9,945)
<b>Net cash (outflow) from financing activities</b>	(10,579)	(9,945)
<b>Net decrease in cash and cash equivalents</b>	(1,263)	(952)
Cash and cash equivalents at the beginning of the financial year	8,068	7,827
<b>Cash and cash equivalents at the end of year</b>	6,805	6,875

# Network snapshot

## Franchise owner experience



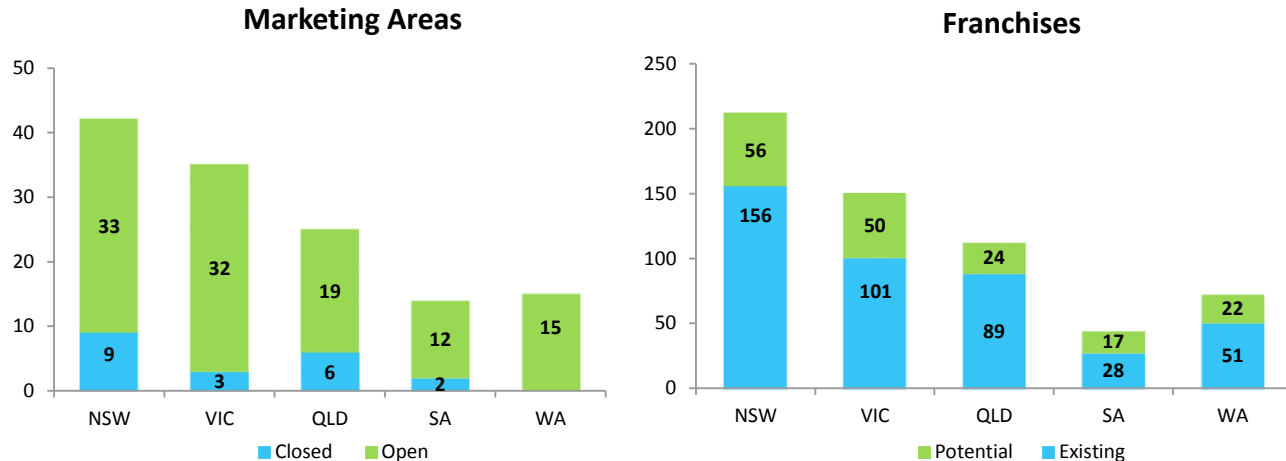
## Franchise owner share of settlements



	National		NSW&ACT		VIC&TAS		QLD		SA&NT		WA	
	<u>Dec-16</u>	<u>Dec-15</u>	<u>Dec-16</u>	<u>Dec-15</u>	<u>Dec-16</u>	<u>Dec-15</u>	<u>Dec-16</u>	<u>Dec-15</u>	<u>Dec-16</u>	<u>Dec-15</u>	<u>Dec-16</u>	<u>Dec-15</u>
Loan book^ (\$b)	52.4	50.7	35.5%	35.2%	19.8%	20.0%	26.8%	26.4%	8.7%	8.8%	9.2%	9.6%
Loan writer (incl LCR)	648	572	226	203	154	136	155	133	48	40	65	60
Franchise	425	423	156	154	101	98	89	90	28	29	51	52

<sup>^</sup>includes residential and commercial

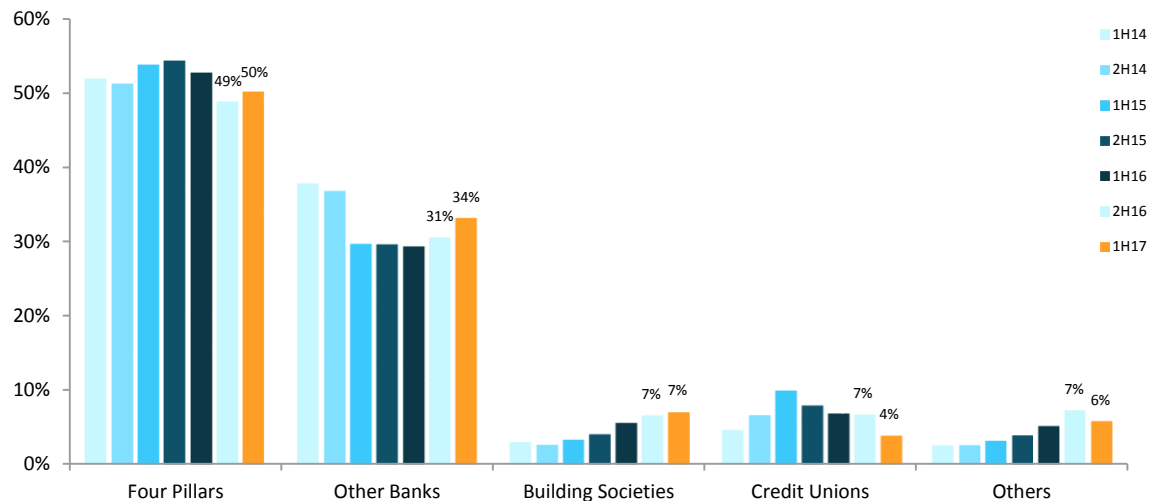
## Capacity for growth in recruitment



- 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, 111 greenfield sites are available
- We have capacity to increase our franchise footprint from 425 to 594

*\* Information based on Dec16 Quarter  
Broker Resource Model*

# Mortgage Choice settlements by lender



Figures from 1H14 to 1H17

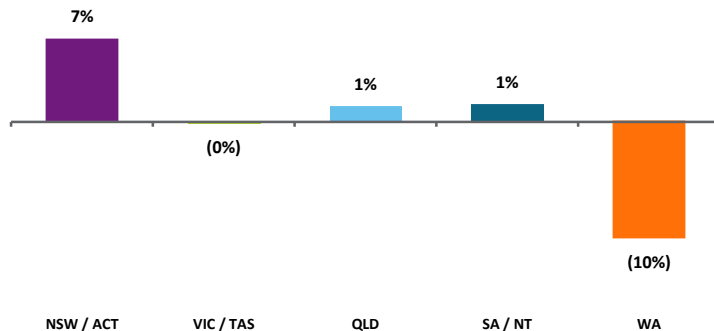
Four Pillars includes CBA, ANZ, NAB (Homeside) and Westpac (excludes St. George and BankWest)

- Four pillars continue to dominate
- Four pillars including StGeorge and Bankwest stays at 65%

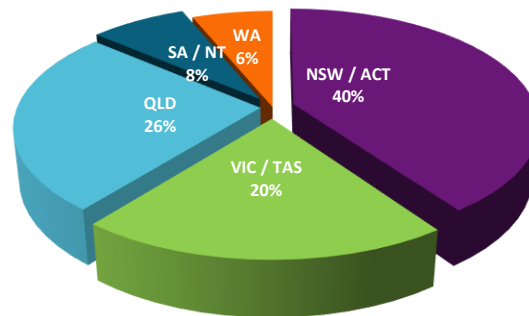
# Settlements by state

<u>Settlements (\$m)</u>	<u>1H17</u>	<u>%</u>	<u>1H16</u>	<u>%</u>	<u>Growth</u>
NSW / ACT	2,566	40%	2,402	39%	7%
VIC / TAS	1,305	20%	1,306	21%	(0%)
QLD	1,627	26%	1,607	26%	1%
SA / NT	479	8%	472	7%	1%
WA	397	6%	439	7%	(10%)
<b>6,374</b>	<b>100%</b>		<b>6,226</b>	<b>100%</b>	<b>2%</b>

Settlements growth 1H17 / 1H16



States contribution to settlements



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