

# Mortgage Choice Limited

## Annual Results Presentation Year ended 30 June 2013

*presented by*

Michael Russell  
CEO

Susan Mitchell  
CFO



# Contents

Performance highlights	Michael Russell
Financial performance	Susan Mitchell
Economy and industry	Michael Russell
Operations and strategy	Michael Russell
Appendices	



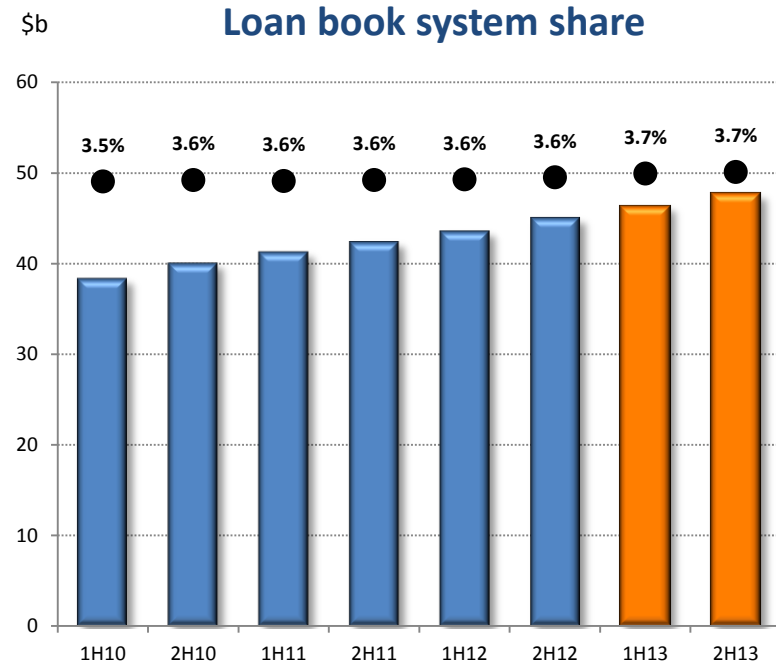
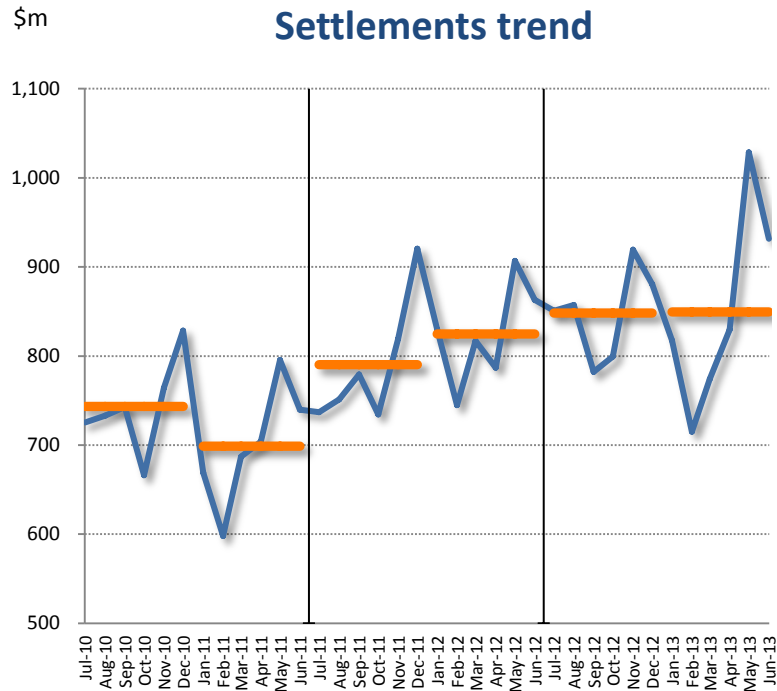
# Performance highlights Michael Russell



# FY13 Group performance highlights

	FY13	FY12		
NPAT - cash	15.8m	15.0m	5.0%	↑
- IFRS	18.7m	18.5m	1.4%	↑
Loan book	47.7b	45.1b	5.8%	↑
Approvals	11.9b	11.2b	5.9%	↑
Settlements	10.2b	9.7b	5.1%	↑
Market Share (approvals)	4.6%	4.6%	0.0%	—
Basic EPS - cash (Cps)	12.9c	12.5c	3.2%	↑
- IFRS (Cps)	15.2c	15.4c	1.3%	↓
DPS - ordinary (Cps)	13.0c	13.0c	0.0%	—

# Group settlements and loan book

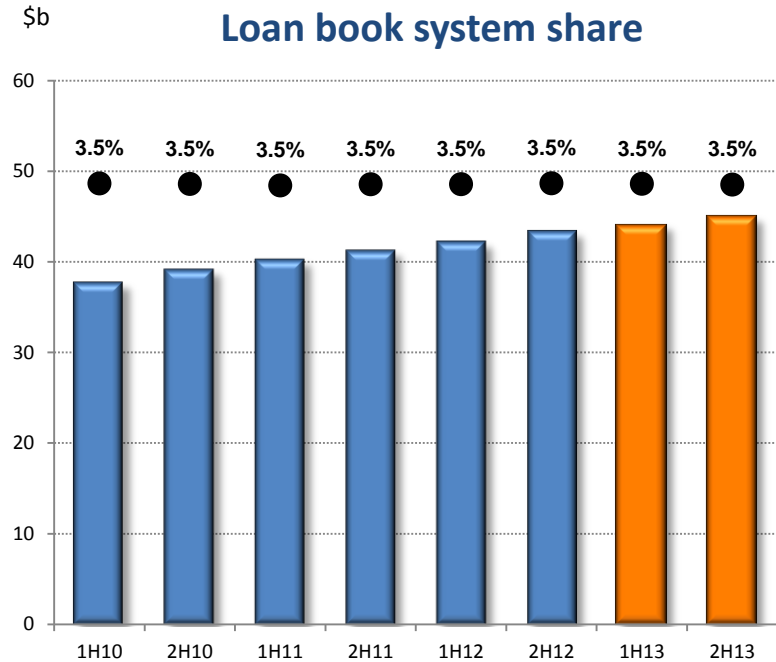
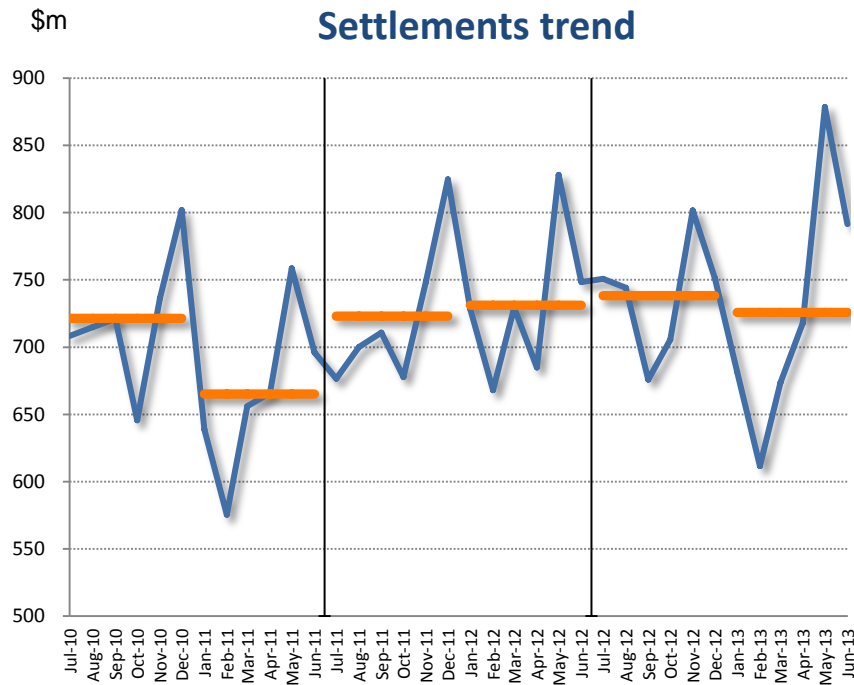


- First time Group settlements reached over \$10b
- May13 settlements \$1.03b - our highest ever
- Continued growth in loan book size and system share

# Mortgage Choice core business

	FY13	FY12		
NPAT - cash	17.4m	16.8m	3.9%	↑
- IFRS	19.9m	19.8m	0.8%	↑
Loan book	45.3b	43.6b	3.9%	↑
Approvals	10.4b	10.1b	2.3%	↑
Settlements	8.8b	8.7b	0.7%	↑
Market Share (approvals)	4.0%	4.2%	0.2%	↓

# Mortgage Choice core settlements and loan book



- Highest annual settlements since FY10
- Q4 FY13 approvals \$2.9b - highest since Q2 FY07, which augers well for Q1 FY14 settlements
- May monthly settlements reached \$879m, the highest level since the month of Jun09
- Loan book growing steadily with run off rate stable

# Highlights summary

- ☑ Solid result that continues to reflect the disciplined investment in our diversified businesses
- ☑ Group cash NPAT up 5.0% to \$15.8m, while core business cash NPAT increased 3.9% to \$17.4m
- ☑ Shareholders rewarded with stable dividend as per Aug12 guidance - 13c fully franked
- ☑ Group loan book up 5.8% to \$47.7b, while core loan book increased 3.9% to \$45.3b
- ☑ Binding agreement to sell LoanKit 30 Sep 2013 will allow management to focus on Mortgage Choice branded businesses and HelpMeChoose.com.au



# Financial performance

## Susan Mitchell



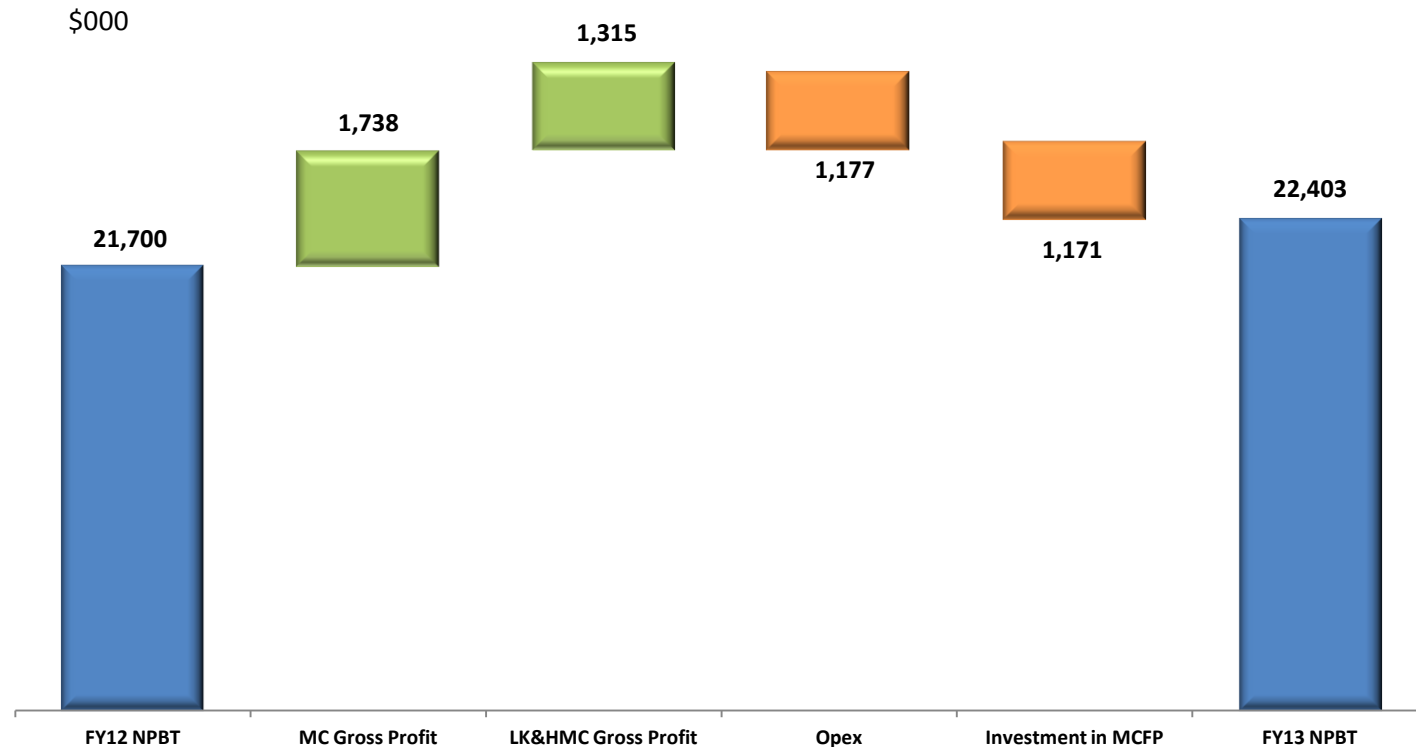
# Profit and loss statement

\$m

	FY13 Cash	FY12 Cash	% change	FY13 IFRS	FY12 IFRS	% change
Origination commission received	52.0	51.1	2%	52.0	51.1	2%
Trailing commission received	86.7	84.4	3%	92.5	96.9	(5%)
	138.6	135.5	2%	144.5	148.0	(2%)
Origination commission paid	37.4	36.4	3%	37.4	36.4	3%
Trailing commission paid	51.3	50.1	2%	52.5	57.8	(9%)
	88.7	86.5	3%	89.9	94.1	(5%)
<b>Net core commission</b>	<b>50.0</b>	<b>49.1</b>	<b>2%</b>	<b>54.6</b>	<b>53.9</b>	<b>1%</b>
Diversified products net revenue	0.8	0.6	46%	0.8	0.6	46%
HMC, LoanKit and Financial Planning net revenue	3.0	1.6	83%	3.7	2.2	63%
Other income	3.3	2.8	20%	3.3	2.8	20%
<b>Gross profit</b>	<b>57.1</b>	<b>54.0</b>	<b>6%</b>	<b>62.4</b>	<b>59.4</b>	<b>5%</b>
Operating expenses	34.7	32.3	7%	34.7	32.3	7%
Share based remuneration	-	-	-	0.8	0.5	64%
Net profit before tax	22.4	21.7	3%	26.9	26.7	1%
<b>Net profit after tax</b>	<b>15.8</b>	<b>15.0</b>	<b>5%</b>	<b>18.7</b>	<b>18.5</b>	<b>1%</b>
EPS (cps)	12.9	12.5	3%	15.2	15.4	(1%)
DPS (cps)	13.0	13.0	0%	13.0	13.0	0%

\* 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.

# NPBT grows while investment continues for the future



- Increase in gross profit in core business, LoanKit and HMC is two and a half times greater than corresponding increase in operating expenses
- Investment in MCFP in FY14 expected to be \$1.4m pre-tax, still on track to break even on a monthly basis in mid FY15

# Divisional results

\$000

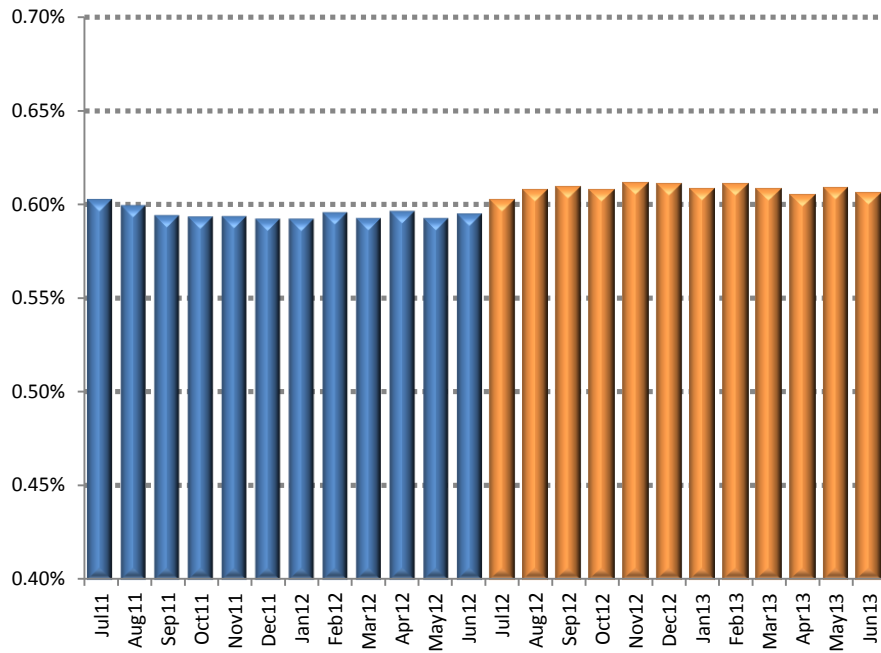
	FY13				FY12				FY11		
	MC	HMC	LK	FP	MC	HMC	LK	FP	MC	HMC	LK
<b>Settlements</b>	<b>8.8b</b>		<b>1.4b</b>		<b>8.7b</b>		<b>1.0b</b>		<b>8.3b</b>		<b>0.4b</b>
<b>Gross profit (IFRS)</b>	58,647	2,578	1,135	18	57,111	1,539	798	-	67,261	487	409
<b>Gross profit (Cash)</b>	54,031	1,889	1,135	18	52,293	911	798	-	49,994	487	409
<b>EBITDA (Cash)</b>	25,739	(427)	(313)	(1,370)	25,014	(1,325)	(740)	(199)	24,340	(562)	(360)
<b>NPAT (IFRS)</b>	<b>19,944</b>	<b>69</b>	<b>(320)</b>	<b>(979)</b>	<b>19,780</b>	<b>(585)</b>	<b>(601)</b>	<b>(139)</b>	<b>28,226</b>	<b>(447)</b>	<b>(320)</b>
<b>NPAT (Cash)</b>	<b>17,410</b>	<b>(402)</b>	<b>(283)</b>	<b>(951)</b>	<b>16,761</b>	<b>(1,025)</b>	<b>(575)</b>	<b>(139)</b>	<b>16,683</b>	<b>(447)</b>	<b>(320)</b>
<b>YOY Growth NPAT (Cash)</b>	<b>4%</b>	<b>61%</b>	<b>51%</b>	<b>-</b>							

MC = Mortgage Choice HMC = HelpMeChoose LK = LoanKit FP = Mortgage Choice Financial Planning

- Mortgage Choice core business - best cash result on record
- HelpMeChoose.com.au - positive result per IFRS, showing strong turnaround
- Mortgage Choice Financial Planning - outperformed August 2012 guidance
- LoanKit - marked improvement YOY – agreement to sell and focus on Mortgage Choice branded businesses and HMC, estimated effect on FY14 NPAT is \$1.2m

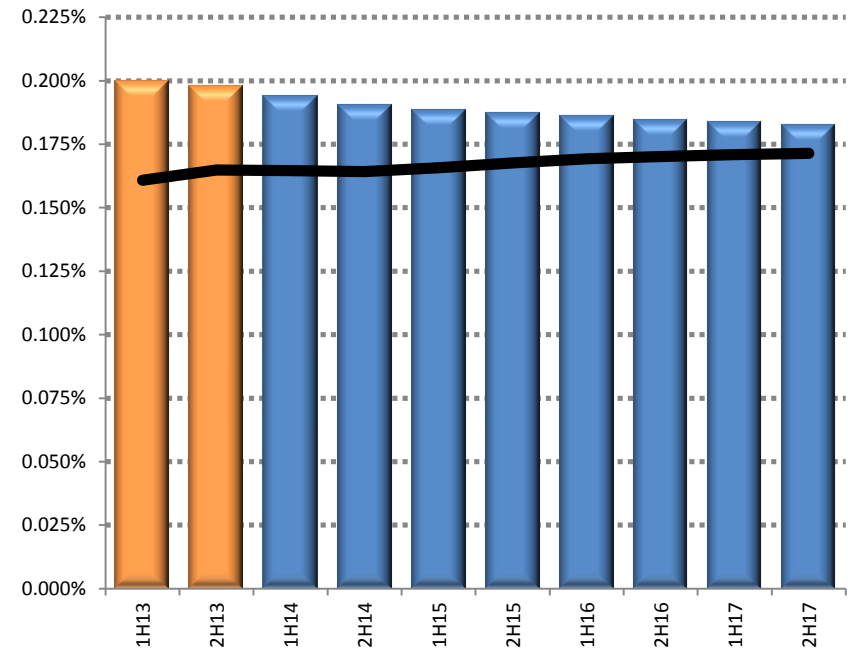
# Average commission rates

## Average upfront rate



- Average upfront rate for FY13 was 0.61%
- Average trail rate approaching 0.175%





## Average trail rate



- Average rate total book (Actual FY13)
- Average rate total book (Estimated)
- Average rate new settlements\* (Estimated)

*\* Settlements from 1 Jan09 - projection based on our best estimates for lender mix, run off and settlements growth*

# Lender commissions

	Upfront rate bps		Trail rate p.a. bps				
	Basic rate	Max rate	Year 1	Year 2	Year 3	Year 4	Year 5+
	50	67.5	15	15	15	20	20
	70	70	0	15	20	20	25
	50	65	0	20	20	20	20
	50	65	0	15	20	25	30
	50	65	15	15	15	20	20
	50	65	15	15	15	15	15
	50	65	15	15	15	20	20
	50	50	15	15	15	15	15

Note: Conversion, ELPS, submission quality, LVR, loan size, volume, delinquency rate and professional qualifications influence maximum rate

# Operating performance

(\$000)	FY13	FY12
<b>Net profit before tax (cash basis)</b>	<b>22,403</b>	<b>21,699</b>
Depreciation and amortisation	1,760	1,664
	<hr/> 24,163	<hr/> 23,363
Tax paid	(7,968)	(6,129)
Purchase of fixed assets and intangibles	(1,406)	(382)
Other balance sheet movements	1,375	399
Cash flow before dividends	<hr/> 16,164	<hr/> 17,251
Dividends paid	(15,873)	(15,616)
<b>Net cash movement</b>	<hr/> <b>291</b>	<hr/> <b>1,635</b>

# Economy and industry

## Michael Russell

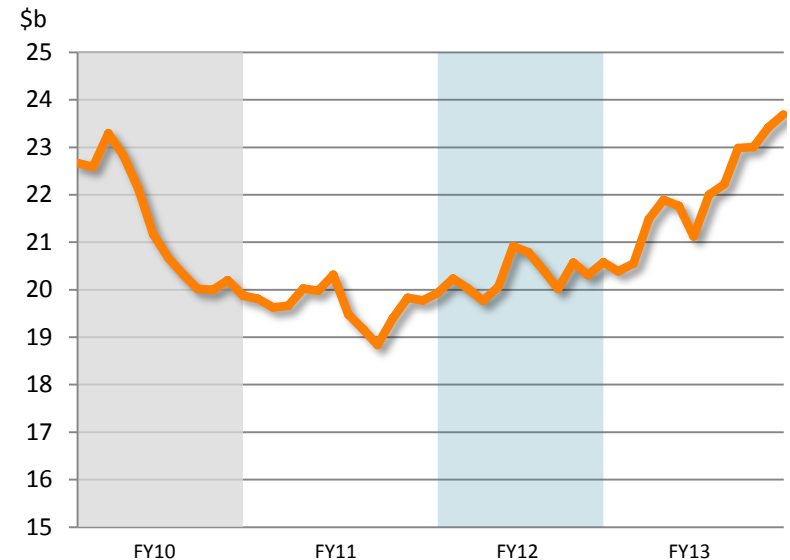




# Australia's housing finance commitments are growing

- FY13 new housing finance commitments were \$264.5b (YOY highest on record), up 8.6% on FY12 (highest increase since FY07)
- Refinancing (owner occupied) lending was \$47.6b, down 2.5% on FY12
- Owner occupied lending was \$170.2b, up 5.2% on FY12
- Investment lending was \$94.3b, up 15.3% on FY12

**Housing finance trend  
(Owner occupied + Investment)**



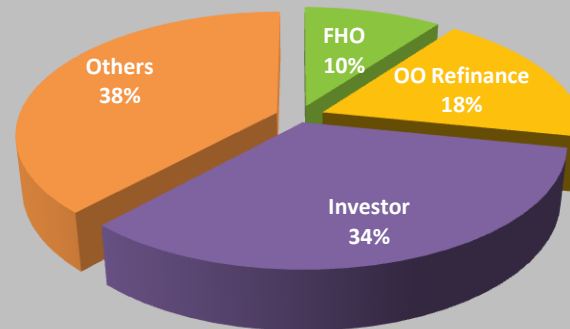
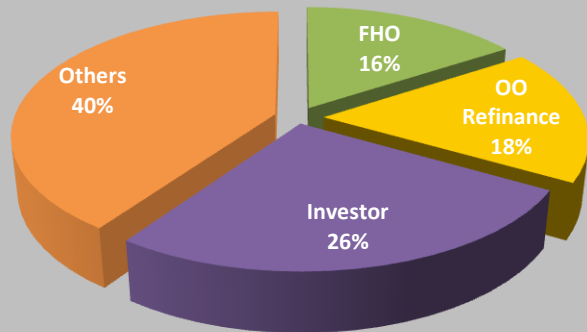
Source: ABS 5609 table 11 - Housing Finance, Australia, Jun13 (seasonally adjusted series)

# Housing finance segment composition

## Mortgage Choice

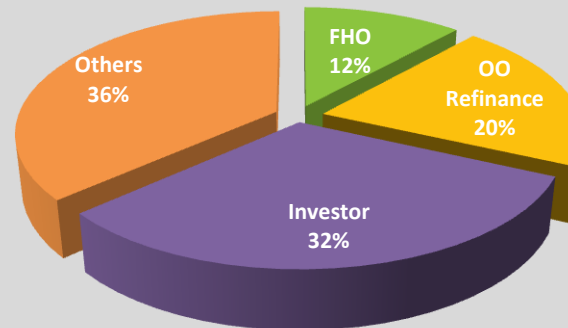
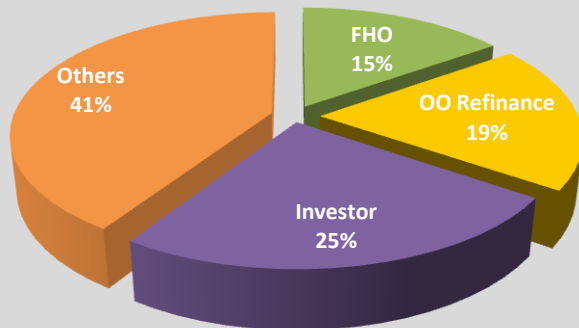
## Market

**FY13**



Mortgage Choice slightly overweight in FHBs. Opportunity to grow share of the investor market.

**FY12**



The Mortgage Choice year on year mix is relatively unchanged. Slight shift in the market YOY with growth in the investor and other segments

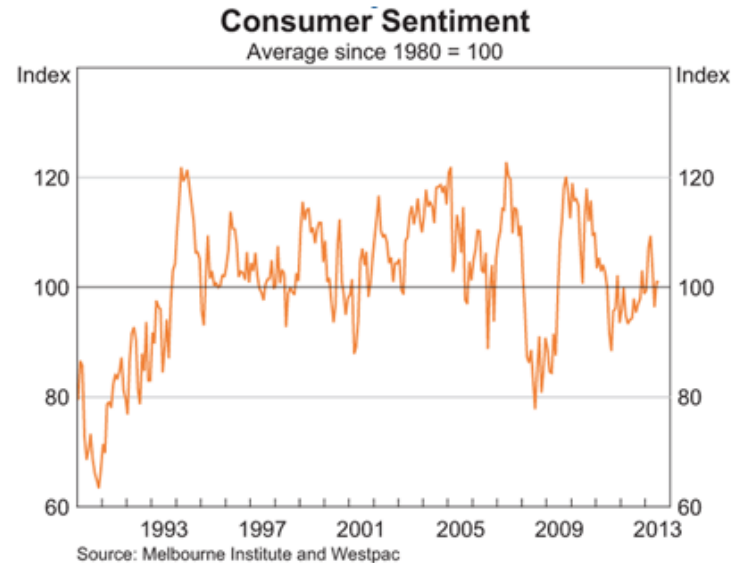
Source: Mortgage Choice approval data

Source: ABS 5609 table11

# Consumer confidence much less responsive to interest rate changes

## Headwinds

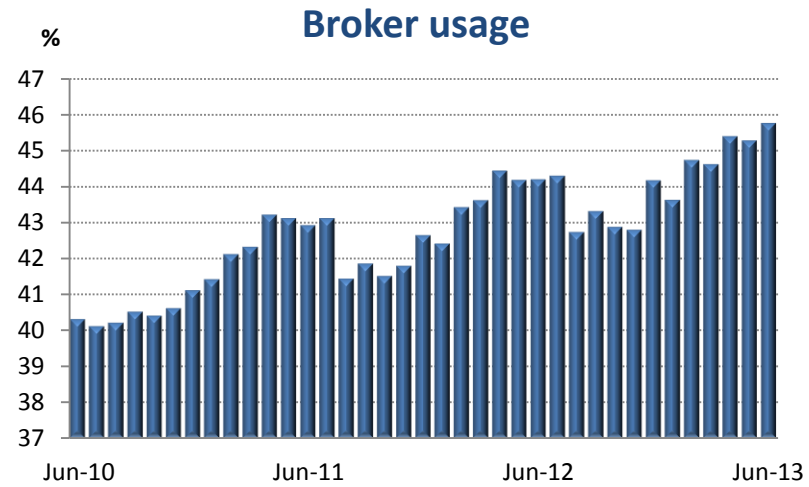
- ❌ Consumer and business confidence low with an ongoing penchant to deleverage
- ❌ Market less responsive to interest rate cuts
- ❌ Unemployment forecast to rise
- ❌ Global and domestic economic uneasiness



# Housing market in an upward cycle and broker usage growing

## Tailwinds

- ☑ Interest rates at historical lows and lenders competing hard for new mortgage customers
- ☑ Broker usage growing
- ☑ Housing undersupply keeping heat in the property market
- ☑ Property prices, auction clearance rates and housing finance commitments are steadily increasing



Source: Digital Finance Analytics estimates (based on number count)

## Credit growth

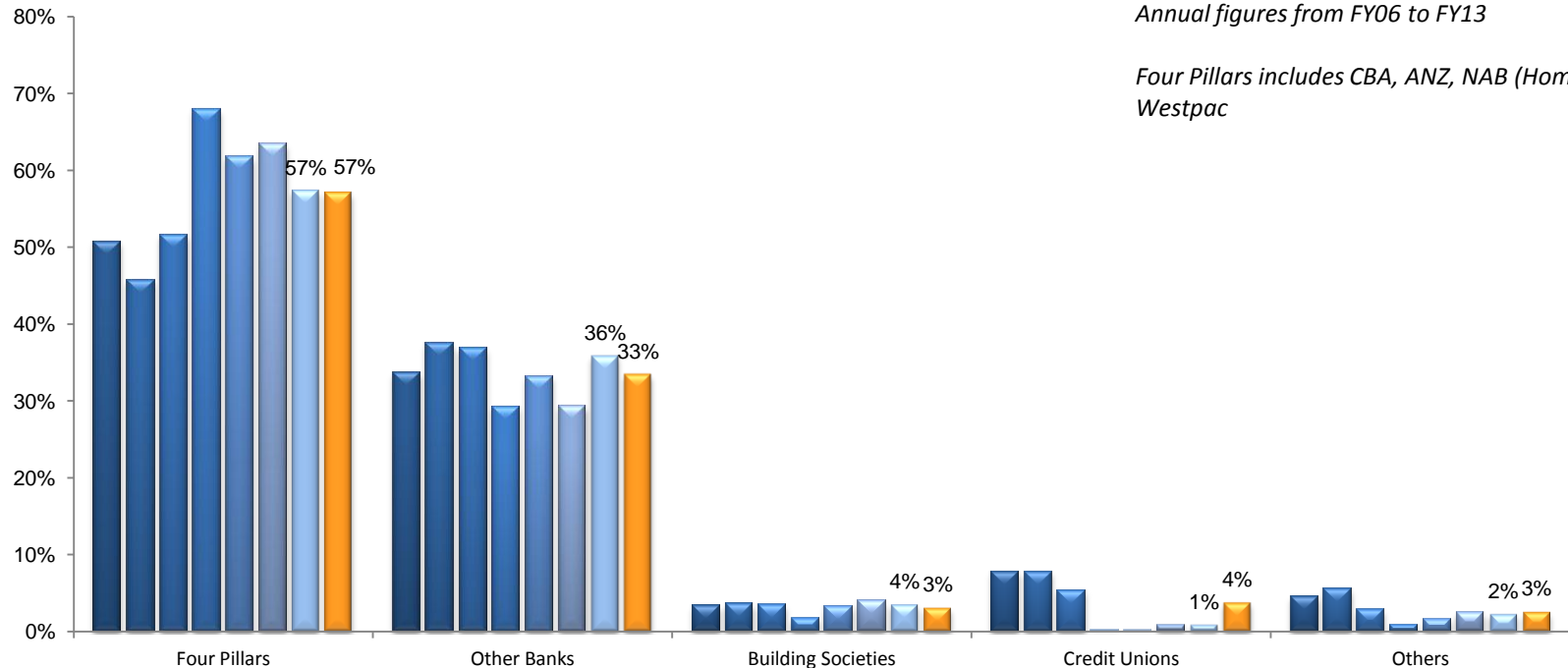
%	2012	2013	2014 (f)	2015 (f)
Credit growth				
Total	4.4	3.1	4-6	4.5-6.5
Housing	5.0	4.6	5-7	5.5-7.5
Business	4.4	0.9	2.5-4.5	3-5
Other personal	-1.3	0.2	1.5-3.5	2-4
Cash rate	3.5	2.75	2.5	3

Source: CBA Full Year Results Analyst Pack – 30 Jun13

# Mortgage Choice settlements by lender

Annual figures from FY06 to FY13

Four Pillars includes CBA, ANZ, NAB (Homeside) and Westpac



- Four Pillars again dominated new home lending, maintaining annual market share at 57%
- Including St George and Bankwest, Four Pillars share down from 68% to 64%
- Credit Unions increased their market share from 1% to 4%
- Other Banks and Building Societies dropped market share, by 3% and 1% respectively



# Operations and strategy

## Michael Russell



# The business is focused on 3 year ACT strategy

**A**

**Acquire profitable market share in home loans**

Focus on:

- Creating efficiencies in marketing to increase lead volumes
- Increasing franchise productivity

**C**

**Cross sell financial advice to home loan customers**

Focus on:

- Expanding the financial adviser network
- Maximising referral opportunities from home loan customers

**T**

**Transition the business to a financial services business**

Focus on:

- Broadening our financial services offerings to meet more of our customers' needs



# Social responsibility



Ronald  
McDonald  
House®

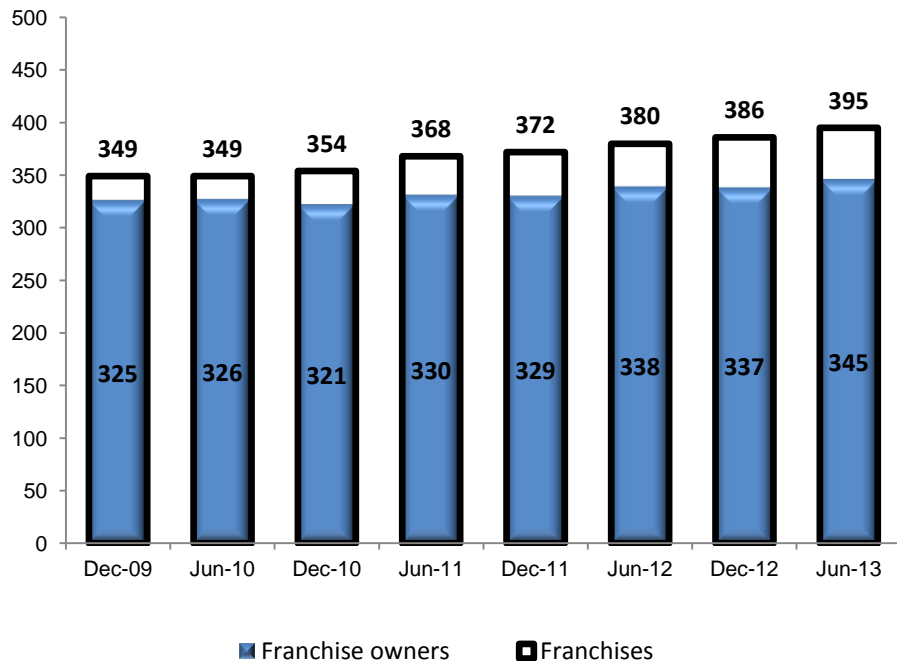
**Mortgage Choice  
has raised over  
\$270,000 to date**



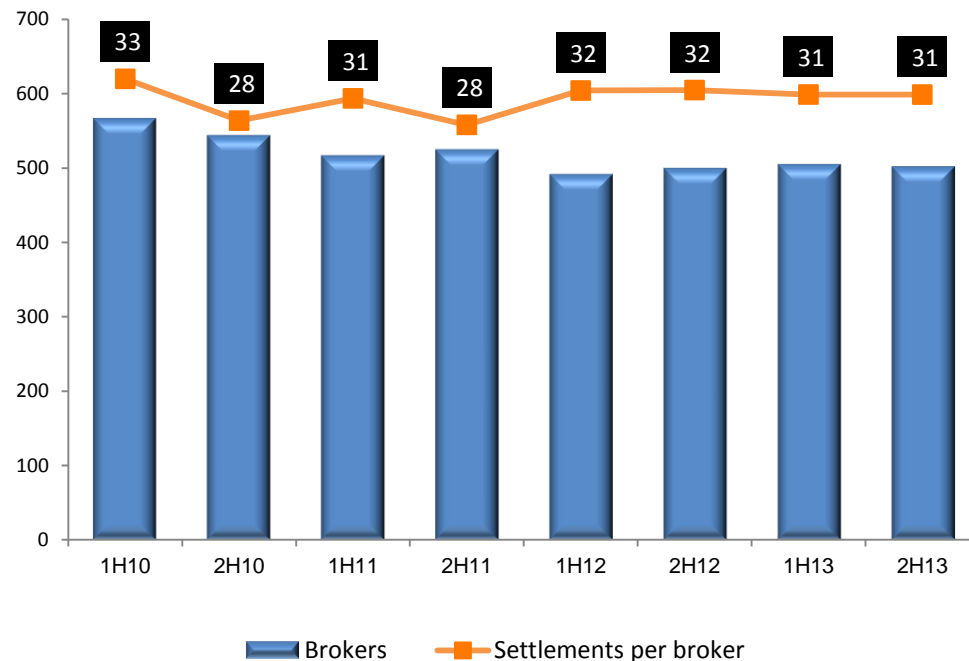


# Strong network growth, now need to focus on productivity

## Network



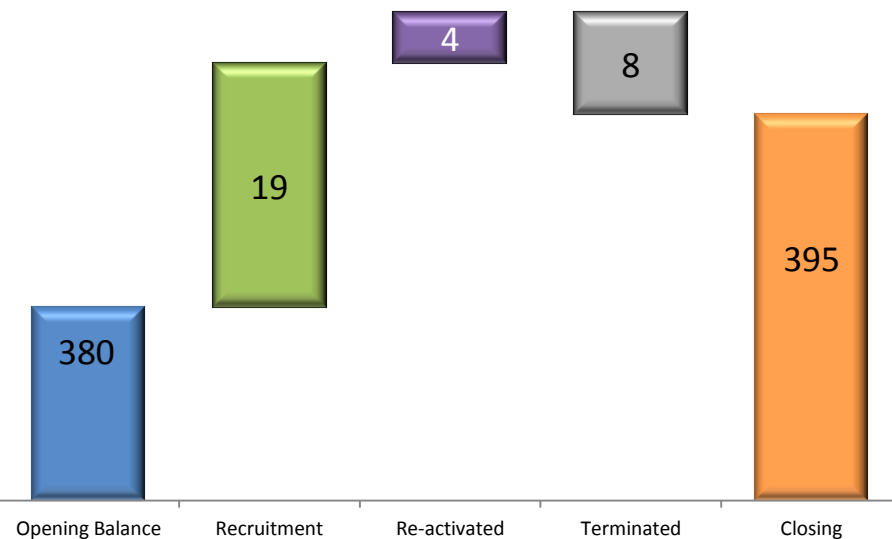
## Productivity settlements



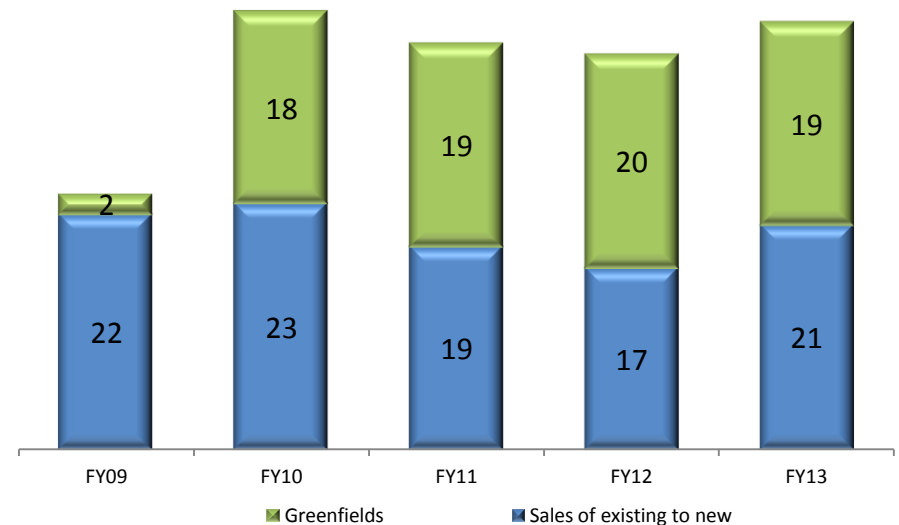
- Ongoing growth in both the number of franchises and franchise owners
- Highest franchise count since Feb09
- Highest ever franchise owner count
- Loan settlements per broker has remained stable

# Franchise recruitment strong and steady

## Franchise Movement



## Sale of greenfields and existing franchises

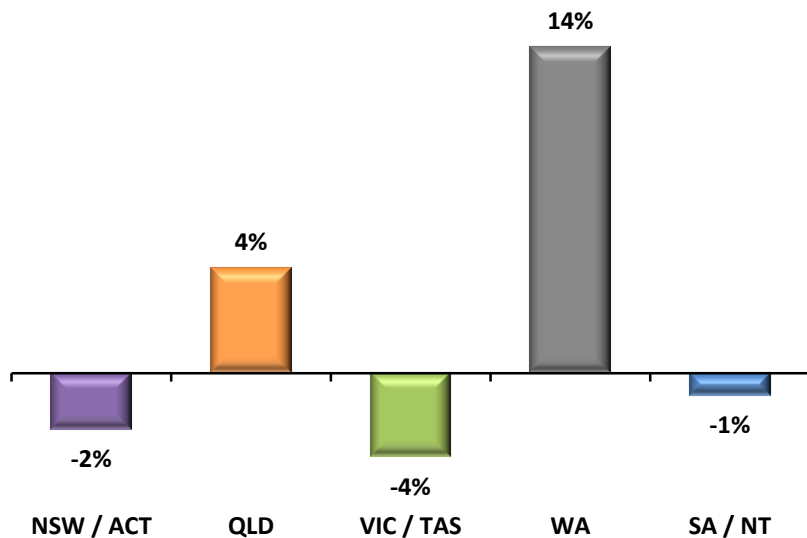


- 19 greenfields recruited and 21 existing franchises were sold to new owners
- Result again demonstrates the strong commercial viability of our franchise system

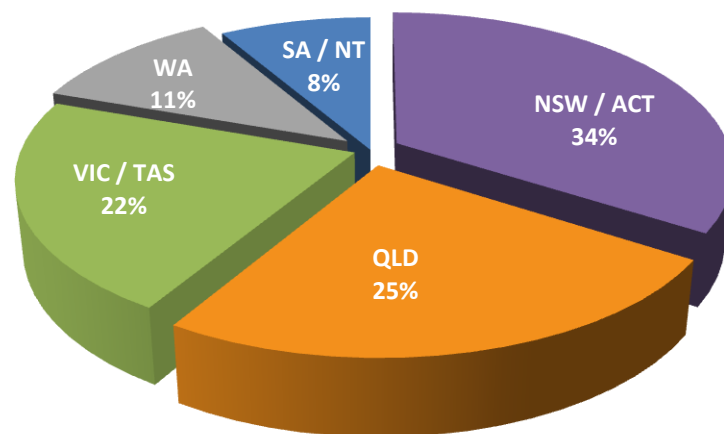
# Mortgage Choice broking network snapshot - state performance

<u>Settlements (\$M)</u>	<u>FY13</u>	<u>%</u>	<u>FY12</u>	<u>%</u>	<u>Growth</u>
NSW / ACT	2,991	34%	3,064	35%	-2%
QLD	2,164	25%	2,073	24%	4%
VIC / TAS	1,906	22%	1,976	23%	-4%
WA	977	11%	859	10%	14%
SA / NT	746	8%	753	8%	-1%
<i>* Excludes LoanKit settlements</i>	<b>8,784</b>	<b>100%</b>	<b>8,725</b>	<b>100%</b>	<b>1%</b>

Settlements growth FY13 / FY12



States contribution to settlements



# Mortgage Choice Financial Planning

## Adviser numbers

Above target and the pipeline is strong

FY13 target	FY13 actual
8 – 10 advisers	11 advisers

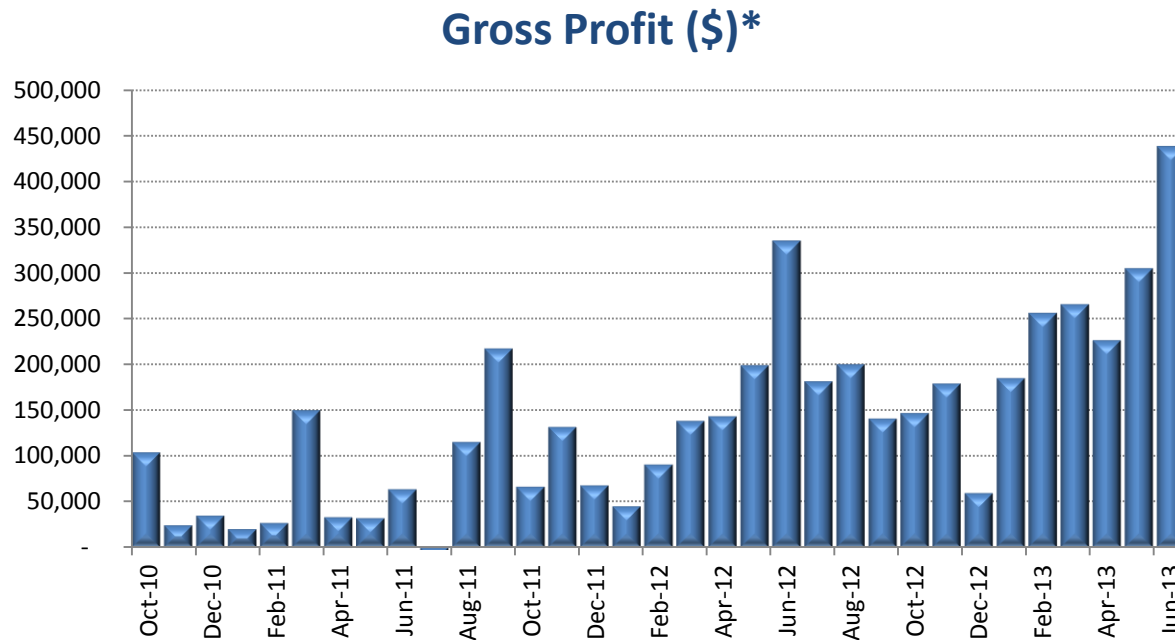


## Our partners



# HelpMeChoose.com.au snapshot

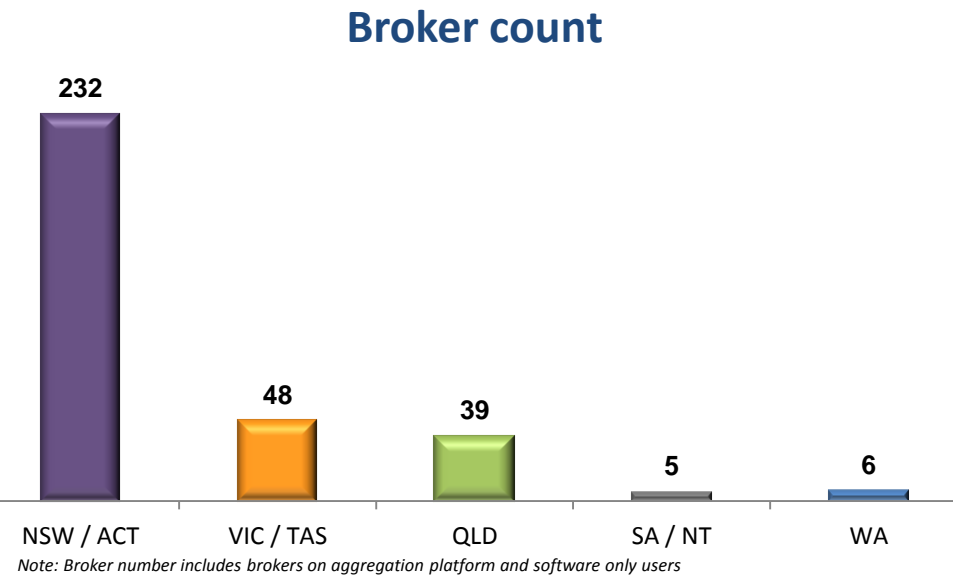
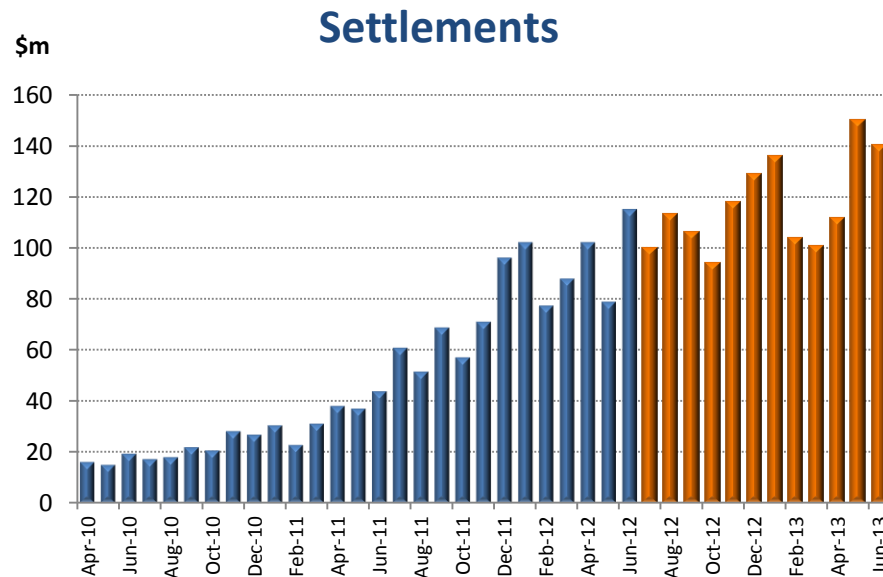
- Profitable trading result
- Monthly profit achieved Feb13 – Jun13
- Health policies sold increased by 45%



\* Gross Profit = Revenue less lead acquisition costs

# LoanKit settlement and recruitment growth very strong

- Settlements - \$1.4b in FY13, up 45% from FY12
- Loan book - \$2.4b as at Jun13, up 69% from Jun12
- Broker numbers up from 256 to 330



# Summary

- ✓ Better than target result
- ✓ Record Mortgage Choice core profit result
- ✓ Highest ever franchise owner count
- ✓ Well placed for growth in FY14, supported by housing market upward cycle
- ✓ HelpMeChoose.com.au first profitable year
- ✓ Financial Planning rollout is on-track
- ✓ Industry-wide usage of brokers reached 45%



Questions?





# Appendices



# Half yearly statistics – P/L

\$m (Cash unless stated)	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13
Origination inc	25.60	27.81	27.99	24.16	25.51	23.59	25.98	25.08	26.03	25.94
Origination exp	(18.69)	(19.38)	(20.25)	(16.99)	(18.14)	(16.62)	(18.43)	(17.95)	(18.78)	(18.59)
Trail inc	43.23	41.39	41.48	41.45	42.30	41.48	42.13	42.32	43.40	43.28
Trail exp	(26.07)	(26.83)	(25.78)	(25.55)	(25.39)	(25.15)	(24.99)	(25.08)	(25.69)	(25.60)
Net Upfront	6.91	8.42	7.74	7.17	7.37	6.97	7.55	7.13	7.25	7.35
Net Trail	17.16	14.56	15.70	15.90	16.91	16.33	17.13	17.24	17.71	17.68
	24.07	22.98	23.44	23.08	24.28	23.30	24.68	24.38	24.96	25.03
Other Income	0.87	0.91	0.89	1.51	1.36	1.95	2.45	2.50	3.45	3.64
Cash PAT	6.43	6.55	7.79	7.04	8.84	7.08	6.50	8.52	7.82	7.95
IFRS PAT	8.25	18.60	9.76	13.72	8.79	18.67	6.44	12.02	7.51	11.20
Cash e.p.s.	5.4 c	5.5 c	6.5 c	5.9 c	7.3 c	6.0 c	5.4 c	7.1 c	6.4 c	6.5 c
IFRS e.p.s.	7.0 c	15.6 c	8.2 c	11.5 c	7.3 c	15.6 c	5.4 c	10 c	6.2 c	9.0 c
Div p.s.	4.75 c	5.50 c	5.50 c	6.50 c	6.00 c	7.00 c	6.00 c	7.00 c	6.00 c	7.00 c
Upfront Payout	73.0%	69.7%	72.3%	70.3%	71.1%	70.4%	70.9%	71.6%	72.2%	71.7%
Trail Payout	60.3%	64.8%	62.2%	61.6%	60.0%	60.6%	59.3%	59.3%	59.2%	59.2%
Total Payout	65.0%	66.8%	66.3%	64.8%	64.2%	64.2%	63.8%	63.8%	64.1%	63.8%

# Half yearly statistics – sales volume

	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13
<b>Volumes MC</b>										
Settlements # ('000)	15.81	17.85	18.73	15.36	15.91	14.56	15.58	15.86	15.77	15.68
Settlements \$b	4.10	4.52	4.82	4.07	4.33	3.99	4.34	4.39	4.43	4.35
Approvals \$b	4.64	5.42	5.39	4.59	4.98	4.55	5.11	5.04	5.09	5.28
Market \$b	114.793	133.935	142.754	124.058	126.389	116.291	124.097	119.399	127.976	132.127
Market Share	4.0%	4.0%	3.8%	3.7%	3.9%	3.9%	4.1%	4.2%	4.0%	4.0%
Avg resi. Loan Book \$b	33.91	35.06	36.97	38.40	39.73	40.68	41.68	42.76	43.80	44.55
<b>Volumes LoanKit</b>										
Settlements # ('000)				0.34	0.44	0.71	1.24	1.75	2.02	2.28
Settlements \$b				0.11	0.13	0.20	0.40	0.56	0.66	0.74
Approvals \$b				0.11	0.16	0.23	0.46	0.63	0.73	0.80
Avg Loan Book \$b				0.73	0.76	0.87	1.03	1.32	1.76	2.25
<b>Volumes Consolidated</b>										
Settlements # ('000)	15.81	17.85	18.73	15.70	16.35	15.27	16.82	17.61	17.79	17.97
Settlements \$b	4.10	4.52	4.82	4.18	4.46	4.19	4.74	4.95	5.09	5.10
Approvals \$b	4.64	5.42	5.39	4.70	5.14	4.78	5.57	5.66	5.82	6.07
Market \$b	114.793	133.935	142.754	124.058	126.389	116.291	124.097	119.399	127.976	132.127
Market Share	4.0%	4.0%	3.8%	3.8%	4.1%	4.1%	4.5%	4.7%	4.5%	4.6%
Avg resi. Loan Book \$b	33.91	35.06	36.97	39.13	40.49	41.54	42.71	44.08	45.55	46.79

## **Notes:**

Market \$ based on ABS figures, 5609 and 5671(original series)

# Balance Sheet

\$000	2013	2012	Change
<b>Current assets</b>			
Cash and cash equivalents	10,953	10,662	3%
Trade and other receivables	95,310	92,683	3%
Total current assets	106,263	103,345	3%
<b>Non-current assets</b>			
Receivables	227,567	221,801	3%
Property, plant and equipment	692	1,125	(38%)
Deferred tax assets	-	-	
Intangible assets	2,287	2,208	4%
Total non-current assets	230,546	225,134	2%
<b>Total assets</b>	<b>336,809</b>	<b>328,479</b>	<b>3%</b>
<b>Current liabilities</b>			
Trade and other payables	63,118	61,968	2%
Current tax liabilities	2,017	2,935	(31%)
Provisions	993	889	12%
Total current liabilities	66,128	65,792	1%
<b>Non-current liabilities</b>			
Trade and other payables	134,938	133,672	1%
Deferred tax liabilities	36,085	34,913	3%
Provisions	526	483	9%
Total non-current liabilities	171,549	169,068	1%
<b>Total liabilities</b>	<b>237,677</b>	<b>234,860</b>	<b>1%</b>
<b>Net assets</b>	<b>99,132</b>	<b>93,619</b>	<b>6%</b>
<b>EQUITY</b>			
Contributed equity	4,018	1,558	158%
Reserves	1,472	1,260	17%
Retained profits	93,642	90,801	3%
<b>Total equity</b>	<b>99,132</b>	<b>93,619</b>	<b>6%</b>

*This is an extract from our audited accounts*

# Cash flow statement

	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	136,819	130,037
Payments to suppliers and employees (inclusive of goods and services tax)	(123,833)	(117,437)
	12,986	12,600
Interest received from trailing commissions	25,586	26,590
Interest paid on trailing commissions	(15,470)	(16,040)
Income taxes paid	(7,968)	(6,129)
<b>Net cash inflow from operating activities</b>	<b>15,134</b>	<b>17,021</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant, equipment and intangibles	(1,406)	(382)
Interest received	536	612
<b>Net cash inflow/(outflow) from investing activities</b>	<b>870</b>	<b>230</b>
<b>Cash flows from financing activities</b>		
Proceeds from sale of shares	1,900	-
Dividends paid to company's shareholders	(15,873)	(15,616)
<b>Net cash (outflow) from financing activities</b>	<b>(13,973)</b>	<b>(15,616)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>291</b>	<b>1,635</b>
Cash and cash equivalents at the beginning of the financial year	10,662	9,027
<b>Cash and cash equivalents at the end of year</b>	<b>10,953</b>	<b>10,662</b>

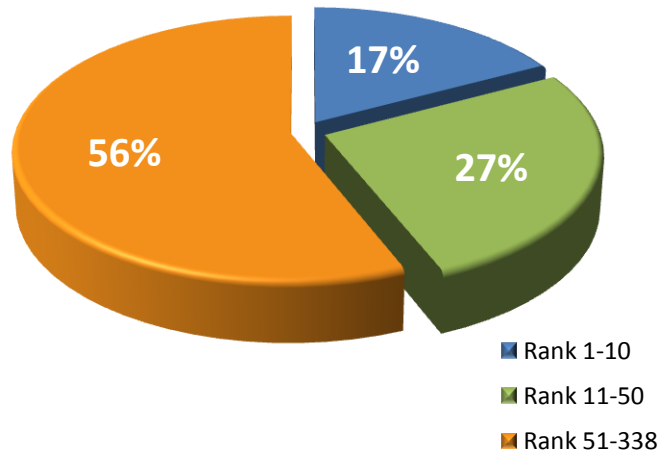
This is an extract from our audited accounts

# Mortgage Choice broking network snapshot

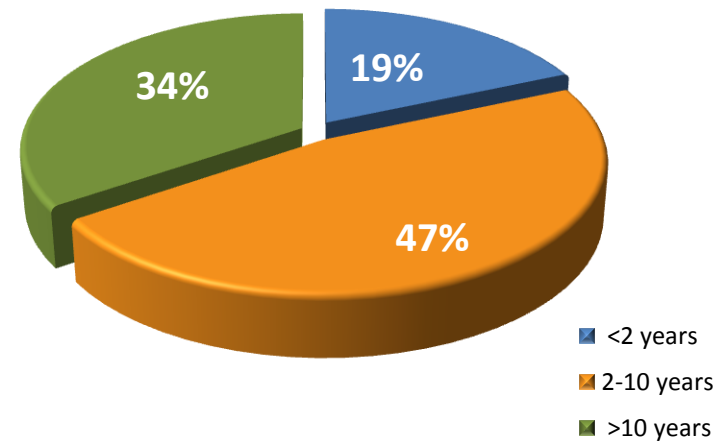
	<u>National</u>	<u>NSW &amp; ACT</u>	<u>VIC &amp; TAS</u>	<u>QLD</u>	<u>SA &amp; NT</u>	<u>WA</u>
Loan book	\$45.3b	36%	20%	25%	9%	10%
Loan writer	504	178	119	113	40	54
Franchise	395	147	83	89	27	49

*Excludes LoanKit, HMC and MCFP*

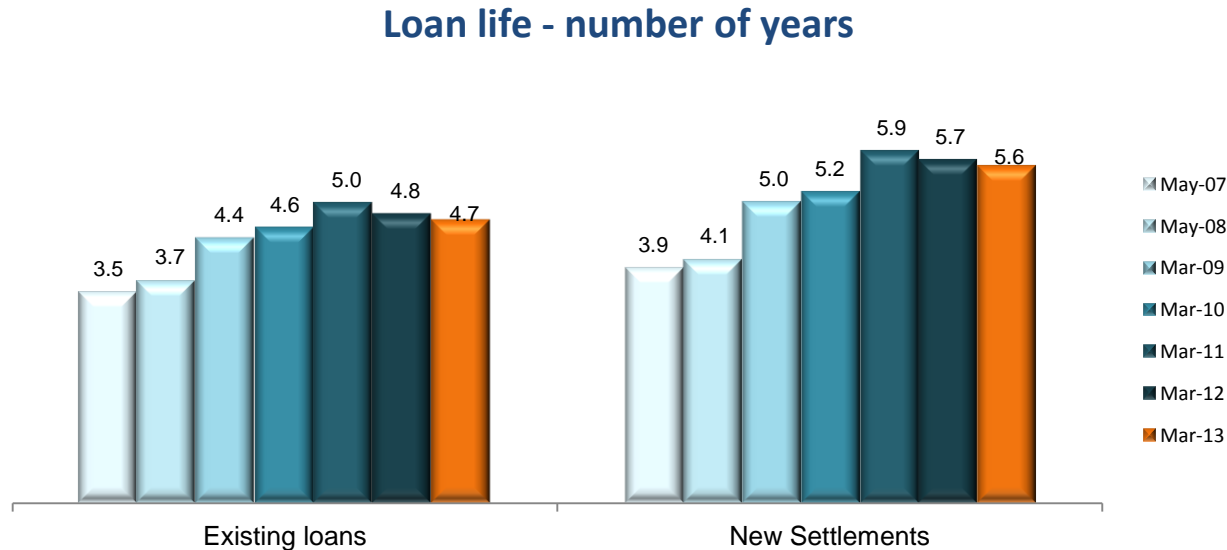
**Franchise owner share of settlements**



**Franchise owner experience**



# Mortgage Choice broking loan life



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

- Conservative loan life of 4.0 (existing) and 4.7 (new) years used in valuation for statutory accounts

# FY13 national accolades

## Company

- 2013 Australian Broking Awards – *Major Brokerage of the Year (Franchise)*
- 2013 Australian Broking Awards – *Best Ethical/Social Responsibility Program*
- 2013 MFAA Awards Runner up – *Retail Aggregator/Originator of the Year*
- 2013 The Adviser's *Top 25 Brokerages list* – ranked second

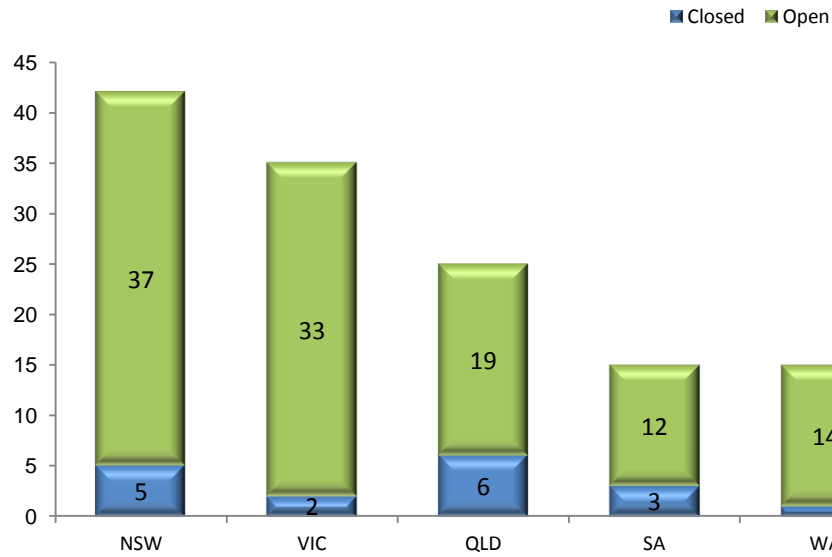
## Franchisee

- 2013 Australian Broking Awards – Mortgage Choice in Glenelg East (SA) – *Best Office (Franchise)*
- 2013 MFAA Awards Runner up – Mortgage Choice in Richmond (NSW) – *Mortgage Broking Business: 2-5 loan writers*
- 2012 Australian Mortgage Awards – Monica Van Riet (VIC) – *Quality Young Gun of the Year - Franchise*

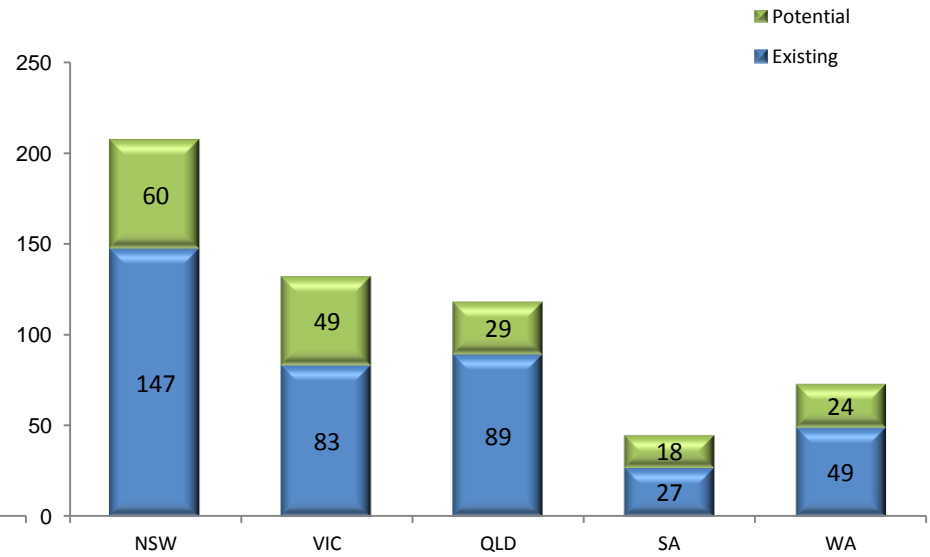


# Capacity for growth in recruitment

## Marketing Areas



## Franchises



- Marketing area capacities are assessed quarterly using an external benchmarking model that takes into account geographic data, ABS data and franchise settlements
- In 134 marketing areas, 115 greenfield sites are available
- We have capacity to increase our franchise footprint from 395 to 575

## Disclaimer

The information contained in this presentation is intended to be a general summary of Mortgage Choice Limited (Mortgage Choice) and its activities as at 30 June 2013, and does not purport to be complete in any respect.

The information in this presentation is not advice about shares in Mortgage Choice (or any other financial product), nor is it intended to influence, or be relied upon by, any person in making a decision in relation to Mortgage Choice shares (or any other financial product). This presentation does not take into account the objectives, financial situation or needs of any particular individual. You should consider your own objectives, financial situation and needs when considering this presentation and seek independent investment, legal, tax, accounting or such other advice as you find appropriate before making any financial or investment decision.

This presentation contains some forward looking statements. Such statements only reflect views held by Mortgage Choice as at the date of this presentation and are subject to certain risks, uncertainties and assumptions. Actual events and results may vary from the events or results expressed or implied in these statements. You should not place undue reliance on any of these statements.

No representation or warranty is made in respect of the accuracy or completeness of any information in this presentation, or the likelihood of any of the forward looking statements in the presentation being fulfilled.

For further information visit

[www.mortgagechoice.com.au](http://www.mortgagechoice.com.au)

or contact

Belinda Williamson – Head of Corporate Affairs

Ph: (02) 8907 0472 Email: [belinda.williamson@mortgagechoice.com.au](mailto:belinda.williamson@mortgagechoice.com.au)