



Mortgage Choice Limited

Half Year Results Ending 31 December 2013

presented by

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CEO

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CFO



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Performance highlights
Michael Russell



Group performance highlights

	1H14	2H13	1H13	1H14 VS 1H13	
NPAT - cash	9.0m	8.0m	7.8m	14.7%	↑
- IFRS	9.7m	11.2m	7.5m	28.5%	↑
NPAT - cash including sale of LoanKit	10.3m	8.0m	7.8m	31.9%	↑
- IFRS including sale of LoanKit	11.0m	11.2m	7.5m	46.4%	↑
Loan book*	46.4b	45.3b	44.4b	4.4%	↑
Approvals**	6.2b	5.3b	5.1b	21.6%	↑
Settlements**	5.3b	4.4b	4.4b	18.8%	↑
Market Share (approvals)***	3.9%	4.0%	3.9%	0.0%	—
<i>From continuing operations</i>					
Basic EPS - cash (Cps)	7.3c	6.6c	6.6c	10.6%	↑
- IFRS (Cps)	7.9c	9.2c	6.4c	23.4%	↑
<i>From continuing and discontinued operations</i>					
Basic EPS - cash (Cps)	8.3c	6.5c	6.4c	29.7%	↑
- IFRS (Cps)	8.9c	9.0c	6.2c	43.5%	↑
DPS - ordinary (Cps)	7.5c	7.0c	6.0c	25.0%	↑

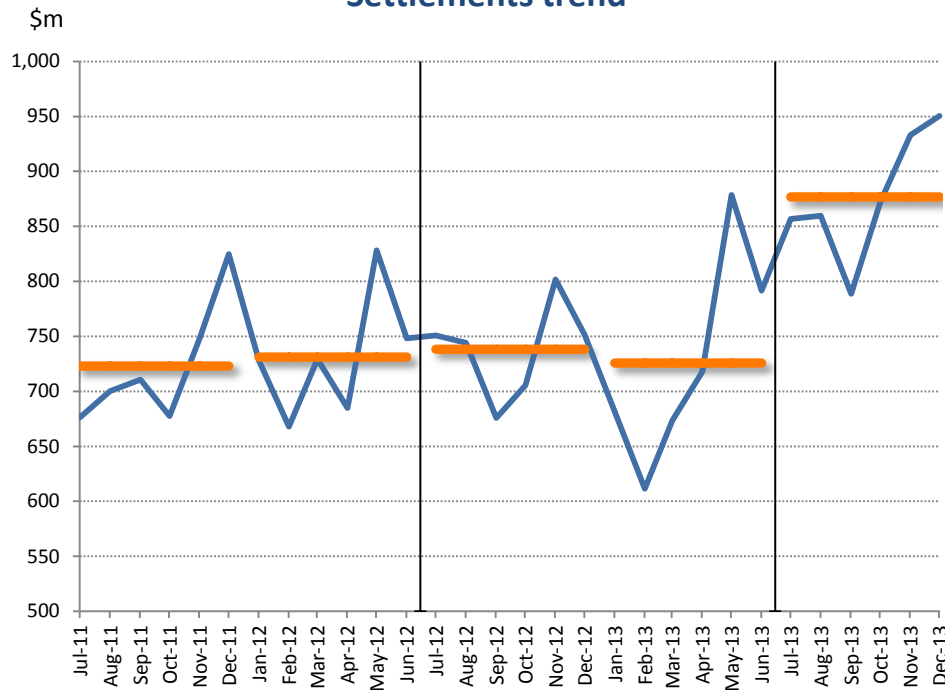
* Mortgage Choice residential and diversified loanbook, excluding LoanKit

** Mortgage Choice only, excluding LoanKit

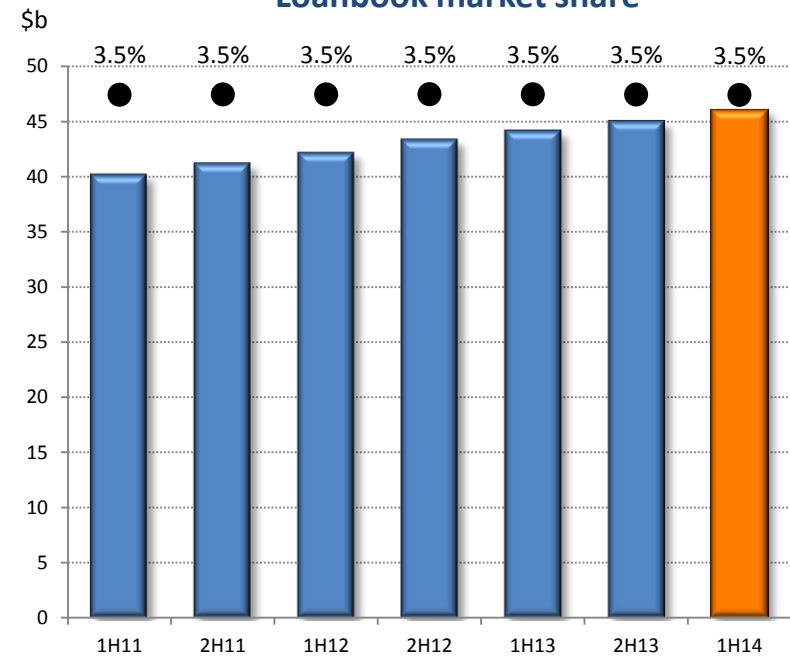
*** Mortgage Choice only, excluding LoanKit. 1H13 Market Share restated due to changing ABS figures

Mortgage Choice core settlements and loan book

Settlements trend



Loanbook market share



- 1H14 - highest half year settlements on record
- Dec13 quarter approvals \$3.2b (highest on record)
- Loanbook share remains steady at 3.5%
- Runoff rate increased but still within expectations

Highlights summary

- ☑ Strong result buoyed by a resurgent housing market
- ☑ Group cash NPAT up 14.7% to \$9.0m, and 31.9% to \$10.3m including gain from sale of LoanKit
- ☑ Shareholders rewarded with an increased dividend – 7.5c fully franked
- ☑ Loan book up 4.4% to \$46.4b



Financial performance
Susan Mitchell



Profit and loss statement

\$m

Origination commission income
Trailing commission income**

Origination commission paid
Trailing commission paid**

Net core commission

Diversified products net revenue
Help Me Choose, LoanKit and Financial Planning net revenue
Other income

Gross profit

Operating expenses
Share based remuneration

Net profit before tax

Net profit after tax

After tax gain on sale of LoanKit

Net profit after tax including gain on sale of LoanKit

EPS (cps) - from continuing operations

EPS (cps) - from continuing and discontinued operations

DPS - ordinary (cps)

	1H14 Cash*	1H13 Cash*	% change
Origination commission income	31.7	26.0	22%
Trailing commission income**	43.9	43.4	1%
	75.7	69.4	9%
Origination commission paid	23.1	18.8	23%
Trailing commission paid**	25.9	25.7	1%
	49.0	44.5	10%
Net core commission	26.7	25.0	7%
Diversified products net revenue	0.6	0.4	46%
Help Me Choose, LoanKit and Financial Planning net revenue	1.5	1.0	49%
Other income	2.2	2.0	8%
Gross profit	31.0	28.4	9%
Operating expenses	18.2	17.3	5%
Share based remuneration	-	-	
Net profit before tax	12.8	11.1	15%
Net profit after tax	9.0	7.8	15%
After tax gain on sale of LoanKit	1.3	-	
Net profit after tax including gain on sale of LoanKit	10.3	7.8	32%
EPS (cps) - from continuing operations	7.3	6.6	11%
EPS (cps) - from continuing and discontinued operations	8.3	6.4	30%
DPS - ordinary (cps)	7.5	6.0	25%

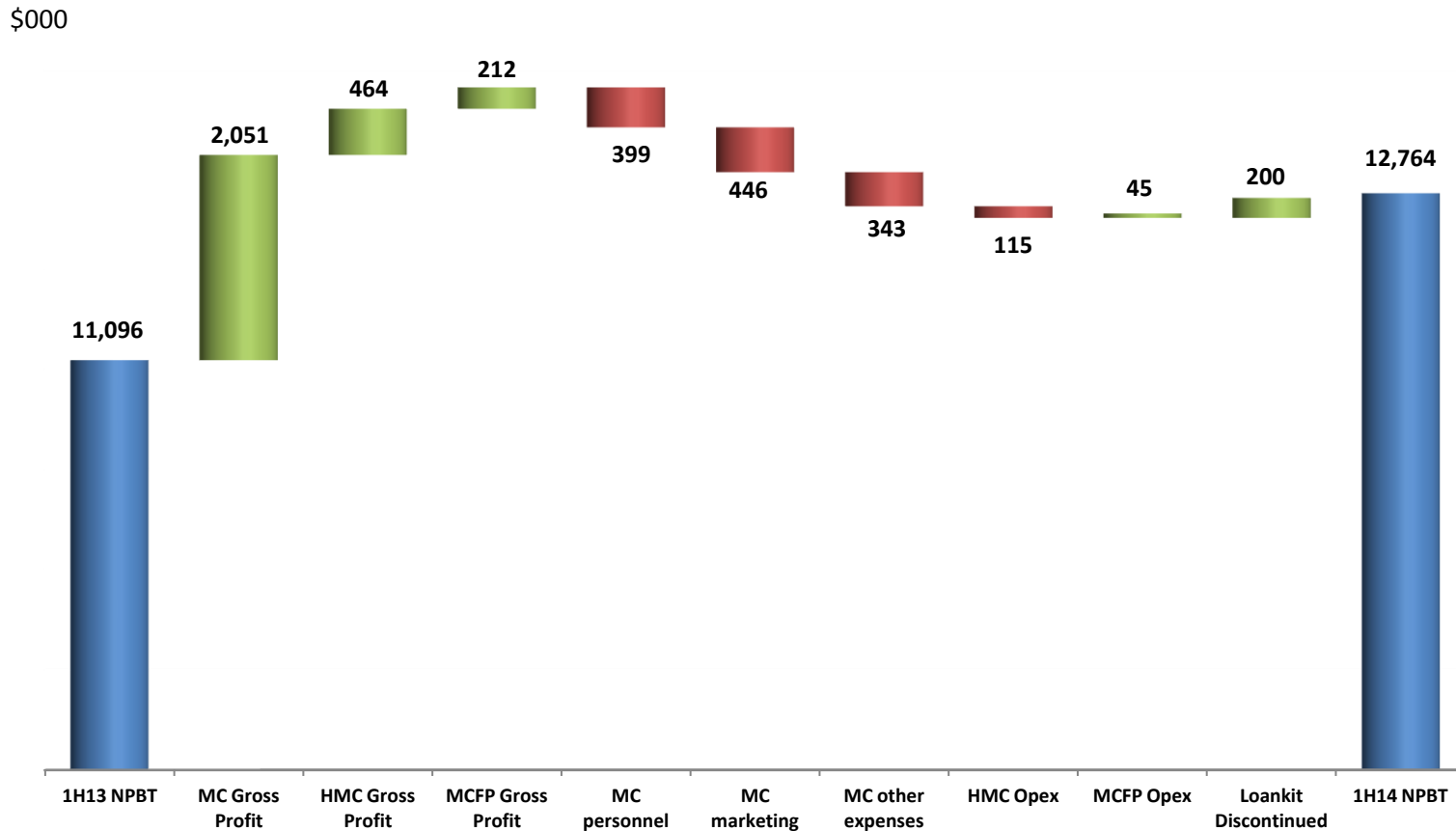
	1H14 IFRS***	1H13 IFRS***	% change
Origination commission income	31.7	26.0	22%
Trailing commission income**	48.0	42.2	14%
	79.7	68.3	17%
Origination commission paid	23.1	18.8	23%
Trailing commission paid**	28.1	24.8	14%
	51.2	43.6	18%
Net core commission	28.5	24.7	15%
Diversified products net revenue	0.6	0.4	46%
Help Me Choose, LoanKit and Financial Planning net revenue	1.6	1.3	18%
Other income	2.2	2.0	8%
Gross profit	32.8	28.5	15%
Operating expenses	18.2	17.3	5%
Share based remuneration	0.6	0.4	69%
Net profit before tax	14.0	10.8	30%
Net profit after tax	9.7	7.5	29%
After tax gain on sale of LoanKit	1.3	-	
Net profit after tax including gain on sale of LoanKit	11.0	7.5	46%
EPS (cps) - from continuing operations	7.9	6.4	23%
EPS (cps) - from continuing and discontinued operations	8.9	6.2	44%
DPS - ordinary (cps)	7.5	6.0	25%

* Cash excludes share based remuneration and the net present value of future trailing commissions receivable and payable.

** IFRS trailing commission income and trailing commission paid include discount unwind as itemised in the consolidated statement of profit and loss.

*** IFRS income and expenses include trading results to 30 September 2013 in the discontinued operation (LoanKit).

Cash NPBT grows YOY while investment continues for the future



- Increase in MC personnel and HMC opex due to increased headcount
- Increase in marketing costs
- Reduction in FP will reverse going forward – comparative period included start up costs

Divisional results

\$000

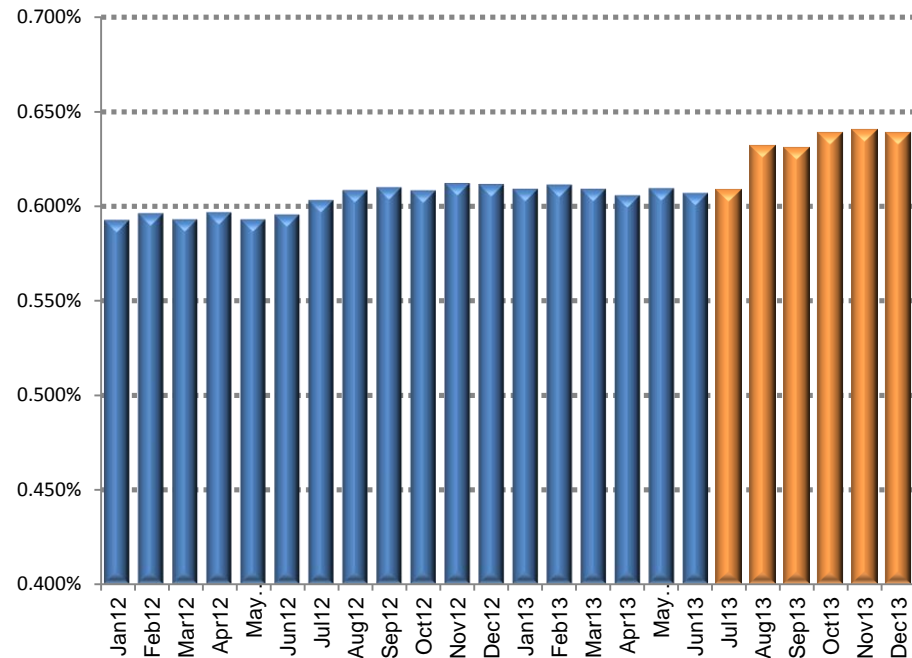
	1H14				2H13				1H13			
	MC	HMC	LK*	FP	MC	HMC	LK	FP	MC	HMC	LK	FP
Settlements	5.3b	-	-	-	4.4b	-	0.7b	-	4.4b	-	0.7b	-
Gross profit (IFRS)	31,191	1,108	329	213	31,539	1,673	667	16	27,108	905	468	2
Gross profit (Cash)	29,397	1,055	329	213	26,684	1,298	667	16	27,347	591	468	2
EBITDA (Cash)	14,244	(232)	(109)	(497)	12,471	139	(31)	(609)	13,268	(566)	(282)	(761)
NPAT (IFRS)	10,291	(177)	(92)	(365)	11,407	301	(71)	(437)	8,537	(232)	(249)	(542)
NPAT (Cash)	9,620	(203)	(98)	(349)	8,381	47	(51)	(422)	9,029	(449)	(232)	(529)
NPAT (IFRS) including sale of LoanKit	11,635	(177)	(92)	(365)								
NPAT (Cash) including sale of LoanKit	10,964	(203)	(98)	(349)								
YOY NPAT (Cash) Growth	7%	55%	58%	34%								

* LoanKit discontinued from October 2013

- MC settlements in second half expected to be strong; operating expenses to be flat or slightly lower
- HMC 1H14 improvement over 1H13; increased operating expenses in 2H14
- MCFP performing as expected

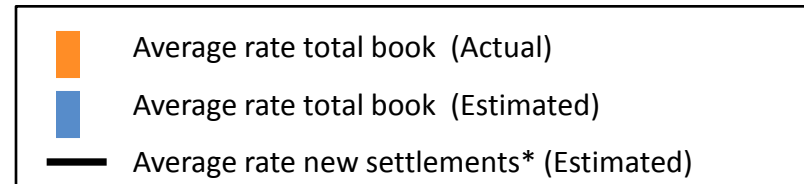
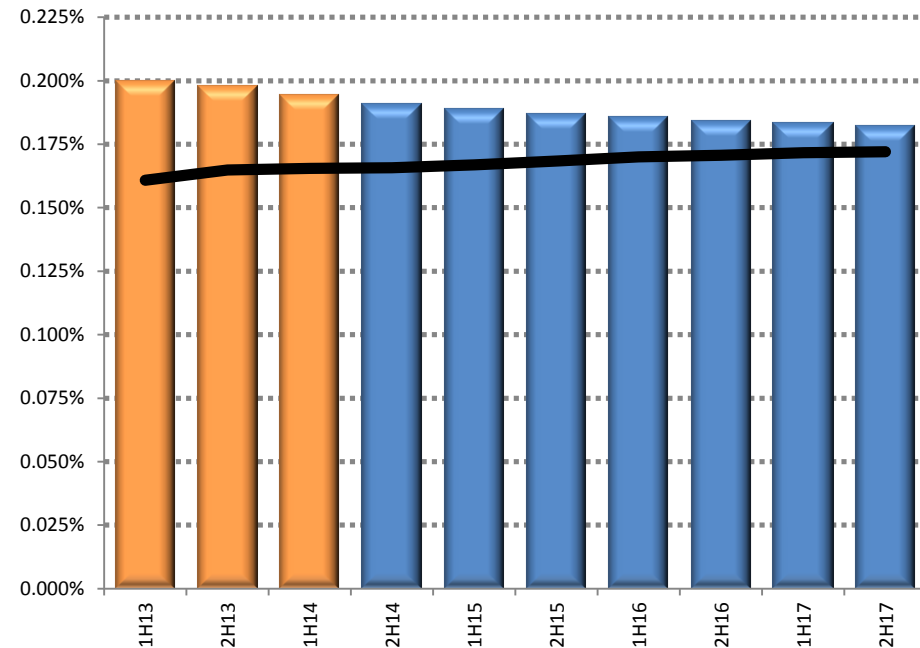
Average commission rates

Average upfront rate



- Average upfront rate increased from 61bps to 63bps
- Average trail rate approaching 17.5bps


Average trail rate



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

Operating performance

\$000	1H14	1H13
Net profit before tax (cash basis)	12,764	11,096
Tax paid	(3,901)	(4,671)
Depreciation and amortisation	990	845
Purchase of fixed assets and intangibles	(725)	(942)
Other balance sheet movements	(2,108)	(1,881)
Cash flow before dividends	7,020	4,447
Net proceeds from sale of LoanKit	1,595	-
Proceeds from issue of shares	-	1,900
Dividends paid	(8,640)	(8,467)
Net cash movement	(25)	(2,120)
Cash position at beginning of the half year	10,953	10,662
Cash position at end of the half year	10,928	8,542



Economy and industry

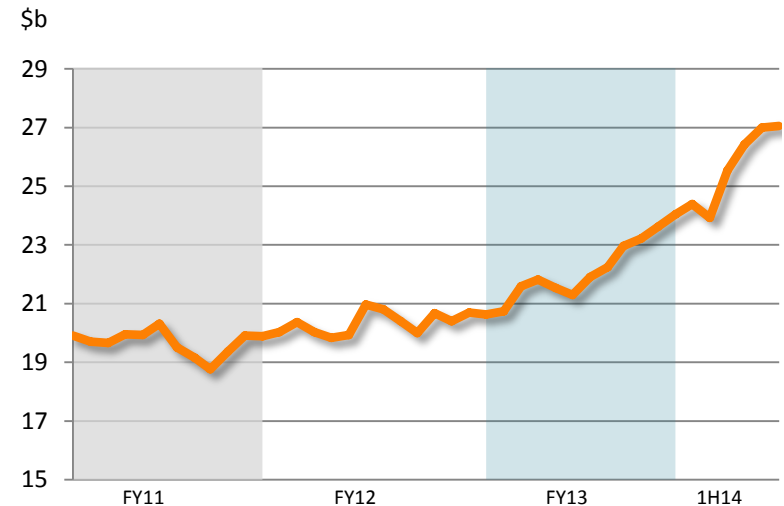
Michael Russell



Australia's housing finance commitments are growing

- 1H14 new housing finance commitments were \$154.3b (highest on record) - up 20.9% on 1H13 (highest increase on record)
- Investment lending was \$58.9b - up 30.1% on 1H13
- Refinancing (owner occupied) lending was \$27.0b - up 17.0% on 1H13
- Owner occupied lending was \$95.4b - up 15.9% on 1H13
- FHB lending was \$12.3b - down 14.8% on 1H13

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

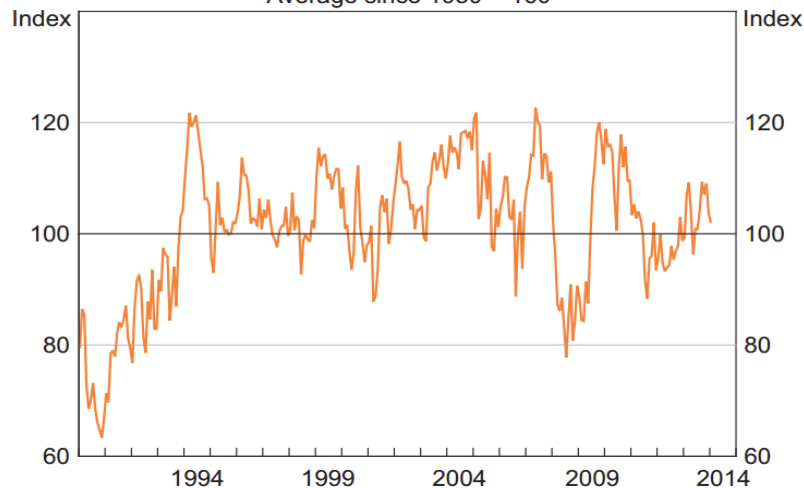


Source: ABS 5609 table 11 - Housing Finance, Australia, Dec13 (seasonally adjusted series)

Market fundamentals are strong

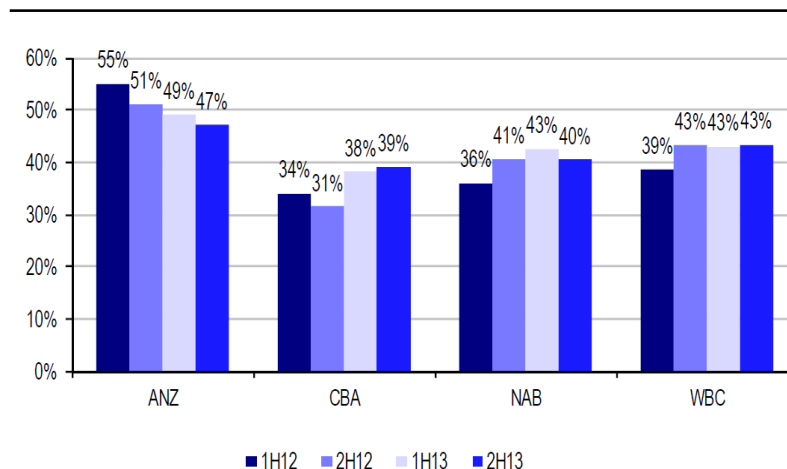
Consumer Sentiment

Average since 1980 = 100

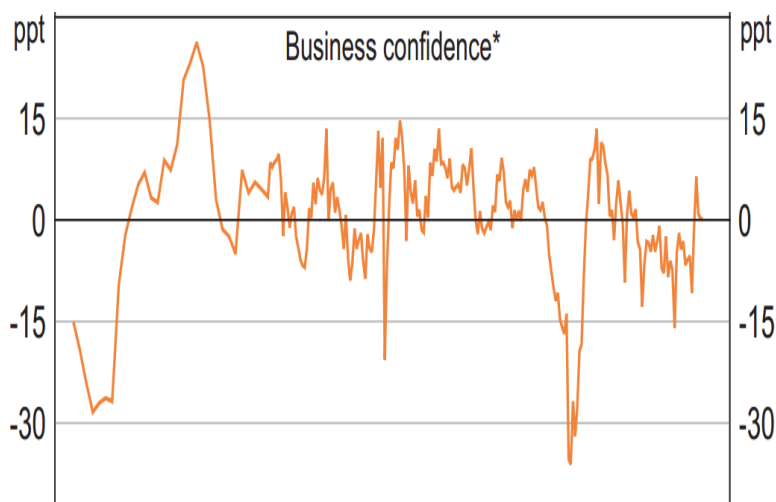


Source: Melbourne Institute and Westpac

Broker Usage



Source: UBS Investment Research – Australian Banking Sector Update Nov13



Source: RBA, NAB

Credit growth

%	2012	2013	2014 (f)	2015 (f)
Credit growth				
Total	4.4	3.1	3.5-5.5	4.5-6.5
Housing	5.0	4.6	5-7	5.5-7.5
Business	4.4	1.0	1-3	3-5
Other personal	-1.4	0.4	1-3	2-4
Cash rate	3.5	2.75	2.5	3

Source: CBA Full Year Results Analyst Pack – 31 Dec 13

Headwinds and Tailwinds

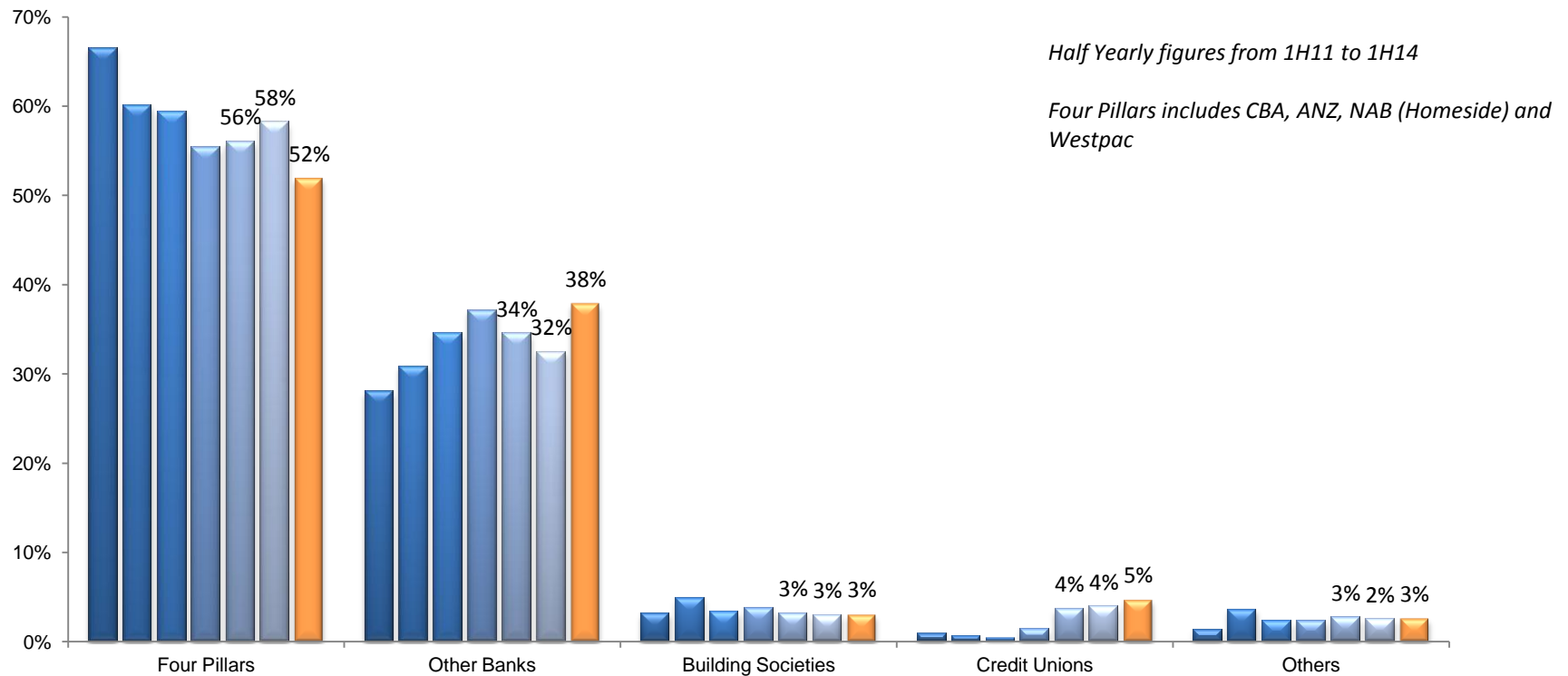
Headwinds

- ✗ Lingering global and domestic economic uneasiness
- ✗ Domestic manufacturing remains under increasing pressure with recent auto industry announcements likely to adversely impact unemployment numbers
- ✗ Unemployment concerns may begin to impact consumer sentiment

Tailwinds

- ✓ Interest rates at historical lows and lenders competing hard for new mortgage customers
- ✓ Housing undersupply keeping heat in the property market
- ✓ Property prices, auction clearance rates and housing finance commitments are steadily increasing
- ✓ Consumer and business confidence today at positive levels

Mortgage Choice settlements by lender



- 'Four Pillars' market share dropped from 58% to 52%, while 'Other Banks' increased their market share from 32% to 38%
- When including St George and Bankwest, the 'Four Pillars' market share fell from 74% to 69%
- 'Credit Unions' increased their market share from 4% to 5%
- 'Building Societies' and 'Others' maintained market share of 3%



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

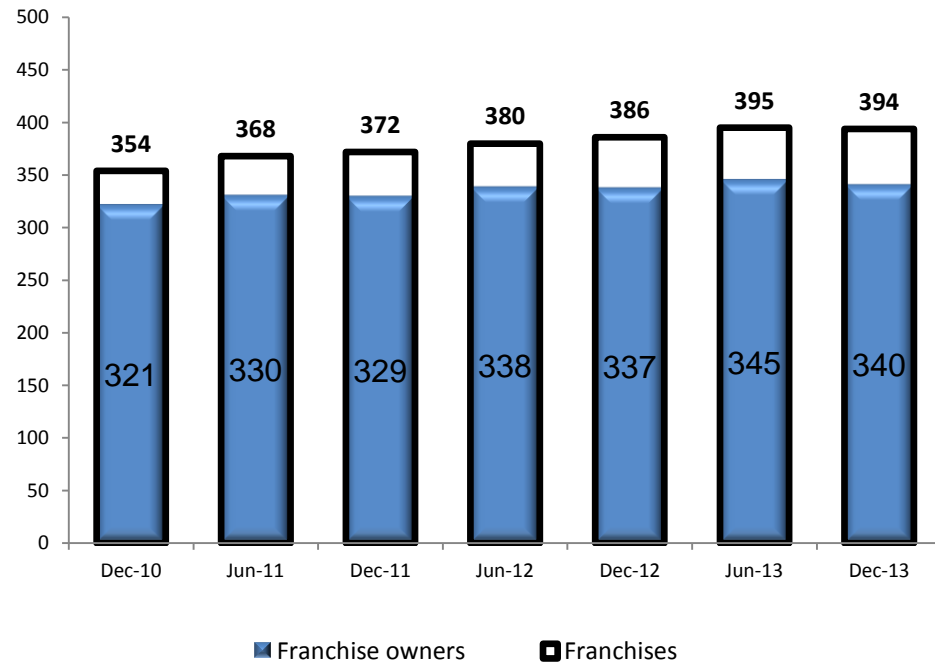
Focus on:

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

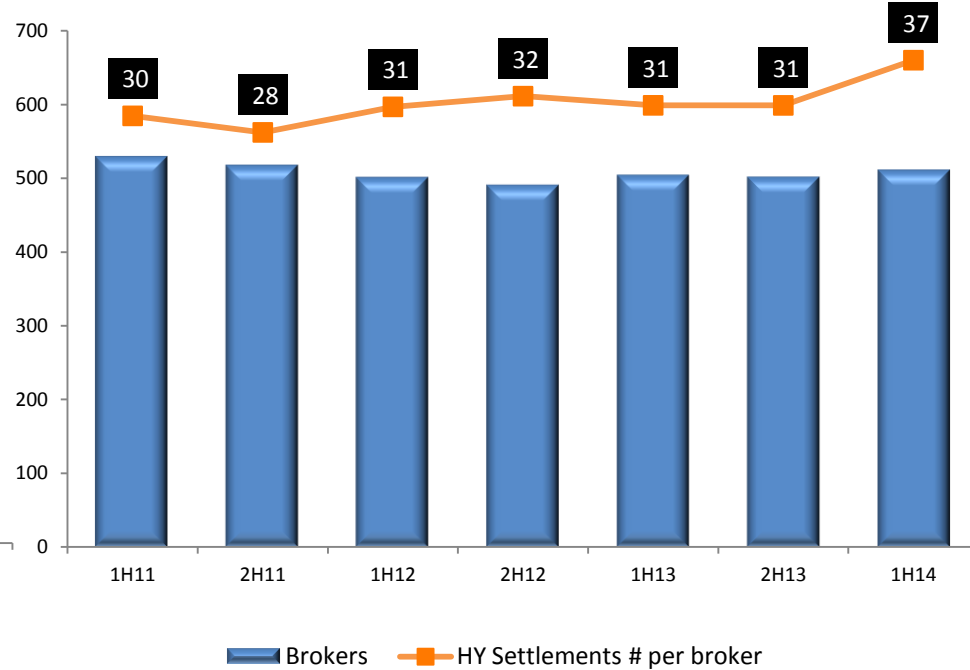


Network numbers stable, dramatic increase in productivity

Network

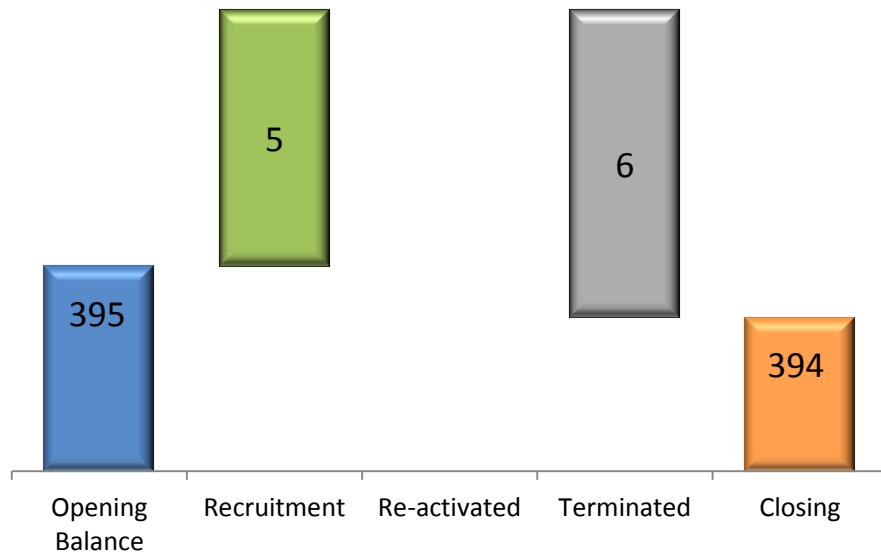


Productivity settlements

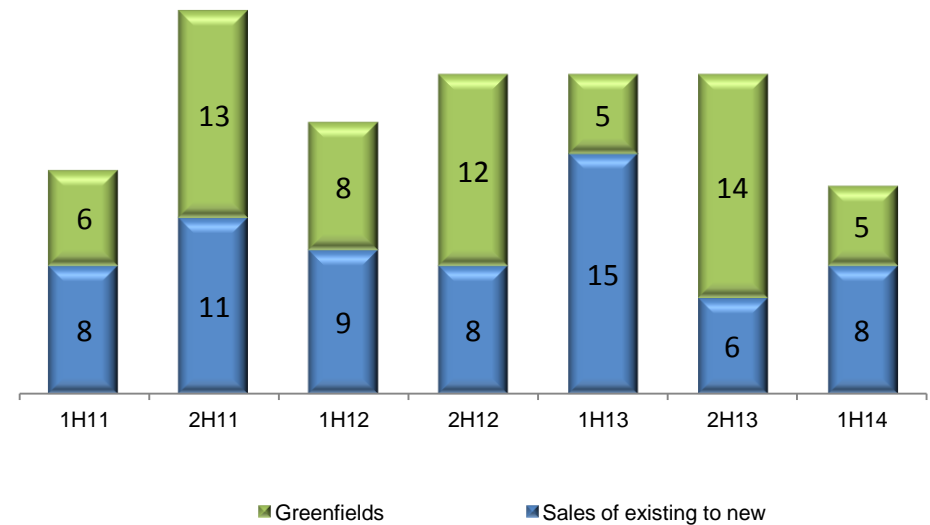


Franchise recruitment strong and steady

Franchise Movement



Sale of greenfields and existing franchises

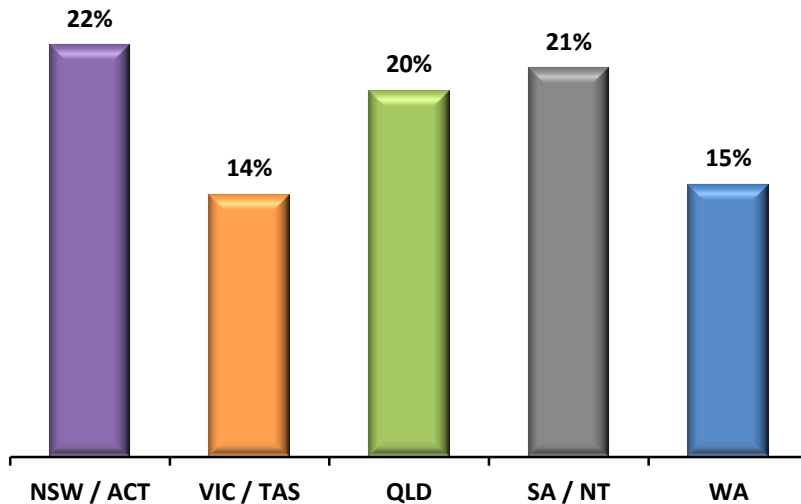


Mortgage Choice broking network snapshot - state performance

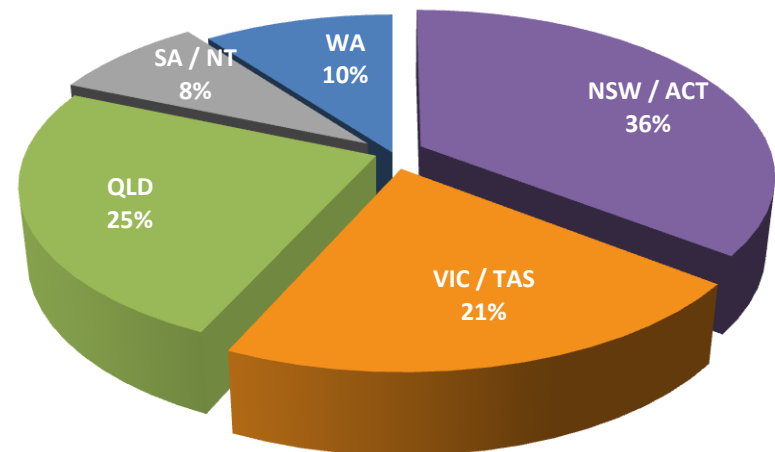
<u>Settlements (\$m)*</u>	<u>1H14</u>	<u>%</u>	<u>1H13</u>	<u>%</u>	<u>Growth</u>
NSW / ACT	1,869	36%	1,532	35%	22%
VIC / TAS	1,116	21%	979	22%	14%
QLD	1,300	25%	1,087	24%	20%
SA / NT	438	8%	363	8%	21%
WA	537	10%	469	11%	15%
	5,260	100%	4,430	100%	19%

* Excludes LoanKit settlements

Settlements growth 1H14 / 1H13



States contribution to settlements



Mortgage Choice Financial Planning

	Jun13	Dec13	Jun14 (f)
Franchises	11	17	29
Advisers	11	20	37

End of Feb14 - 23 franchises and 25 advisers



Our partners



Summary

- ✓ Strong result buoyed by resurgent housing market
- ✓ Best ever half year cash result
- ✓ Shareholders rewarded with increased dividend
- ✓ Dec13 quarter approvals \$3.2m – best ever quarter
- ✓ Financial Planning rollout continues to gain positive momentum and acclaim
- ✓ Business is working hard to seize the opportunity now presented

“I will prepare and some day my chance will come.”

- Abraham Lincoln



Questions?



Appendices



Half yearly statistics

\$m (Cash unless stated)	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14
Origination inc	25.60	27.81	27.99	24.16	25.51	23.59	25.98	25.08	26.03	25.94	31.72
Origination exp	(18.69)	(19.38)	(20.25)	(16.99)	(18.14)	(16.62)	(18.43)	(17.95)	(18.78)	(18.59)	(23.08)
Trail inc	43.23	41.39	41.48	41.45	42.30	41.48	42.13	42.32	43.40	43.28	43.94
Trail exp	(26.07)	(26.83)	(25.78)	(25.55)	(25.39)	(25.15)	(24.99)	(25.08)	(25.69)	(25.60)	(25.89)
Net Upfront	6.91	8.42	7.74	7.17	7.37	6.97	7.55	7.13	7.25	7.35	8.64
Net Trail	17.16	14.56	15.70	15.90	16.91	16.33	17.13	17.24	17.71	17.68	18.05
	24.07	22.98	23.44	23.08	24.28	23.30	24.68	24.38	24.96	25.02	26.69
Other Income	0.87	0.91	0.89	1.51	1.36	1.95	2.45	2.50	3.45	3.64	4.31
Cash PAT*	6.43	6.55	7.79	7.04	8.84	7.08	6.50	8.52	7.82	7.95	8.97
IFRS PAT*	8.25	18.60	9.76	13.72	8.79	18.67	6.44	12.02	7.51	11.20	9.66
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	8.3 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	10.0 c	6.2 c	9.0 c	8.9 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	7.50 c
Upfront Payout	73.0%	69.7%	72.3%	70.3%	71.1%	70.4%	70.9%	71.6%	72.2%	71.7%	72.8%
Trail Payout	60.3%	64.8%	62.2%	61.6%	60.0%	60.6%	59.3%	59.3%	59.2%	59.2%	58.9%
Total Payout	65.0%	66.8%	66.3%	64.8%	64.2%	64.2%	63.8%	63.8%	64.1%	63.8%	64.7%

	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14
Volumes MC											
Settlements # ('000)	15.81	17.85	18.73	15.36	15.91	14.56	15.58	15.86	15.77	15.68	18.66
Settlements \$b	4.10	4.52	4.82	4.07	4.33	3.99	4.34	4.39	4.43	4.35	5.26
Approvals \$b	4.64	5.42	5.39	4.59	4.98	4.55	5.11	5.04	5.09	5.28	6.19
Market \$b **	114.793	133.935	142.754	124.058	126.389	116.291	124.097	119.833	129.605	133.076	157.060
Market Share	4.0%	4.0%	3.8%	3.7%	3.9%	3.9%	4.1%	4.2%	3.9%	4.0%	3.9%
Avg Loan Book \$bn	33.91	35.06	36.97	38.40	39.73	40.68	41.68	42.76	43.80	44.55	45.56

Notes:

* Cash and IFRS PAT for 1H14 are excluding proceeds from sale of LoanKit

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

Balance Sheet

	31-Dec-13 \$'000	30-Jun-13 \$'000	Change (%)
ASSETS			
Current assets			
Cash and cash equivalents	10,928	10,953	(0%)
Trade and other receivables	97,197	95,310	2%
Total current assets	108,125	106,263	2%
Non-current assets			
Receivables	231,171	227,567	2%
Property, plant and equipment	818	692	18%
Intangible assets	1,957	2,287	(14%)
Total non-current assets	233,946	230,546	1%
Total assets	342,071	336,809	2%
LIABILITIES			
Current liabilities			
Trade and other payables	62,379	63,118	(1%)
Current tax liabilities	2,111	2,017	5%
Provisions	987	993	(1%)
Total current liabilities	65,477	66,128	(1%)
Non-current liabilities			
Trade and other payables	137,038	134,938	2%
Deferred tax liabilities	36,758	36,085	2%
Provisions	700	526	33%
Total non-current liabilities	174,496	171,549	2%
Total liabilities	239,973	237,677	1%
Net assets	102,098	99,132	3%
EQUITY			
Contributed equity	4,604	4,018	15%
Reserves	1,491	1,472	1%
Retained profits	96,003	93,642	3%
Total equity	102,098	99,132	3%









This is an extract from our audited accounts

Cash flow statement

	1H14	1H13
	\$000	\$000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	90,352	83,103
Payments to suppliers and employees (inclusive of goods and services tax)	(78,964)	(73,325)
	11,388	9,778
Income taxes paid	(3,901)	(4,671)
Net cash inflow from operating activities	7,487	5,107
Cash flows from investing activities		
Payments for property, plant, equipment and intangibles	(725)	(942)
Proceeds from sale of LoanKit net of selling costs	1,595	-
Interest received	258	282
Net cash (outflow) from investing activities	1,128	(660)
Cash flows from financing activities		
Proceeds from issue of shares	-	1,900
Dividends paid to company's shareholders	(8,640)	(8,467)
Net cash (outflow) from financing activities	(8,640)	(6,567)
Net decrease in cash and cash equivalents held	(25)	(2,120)
Cash and cash equivalents at the beginning of the half-year	10,953	10,662
Cash and cash equivalents at the end of the half-year	10,928	8,542

This is an extract from our audited accounts

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	60	15	15	15	15	15

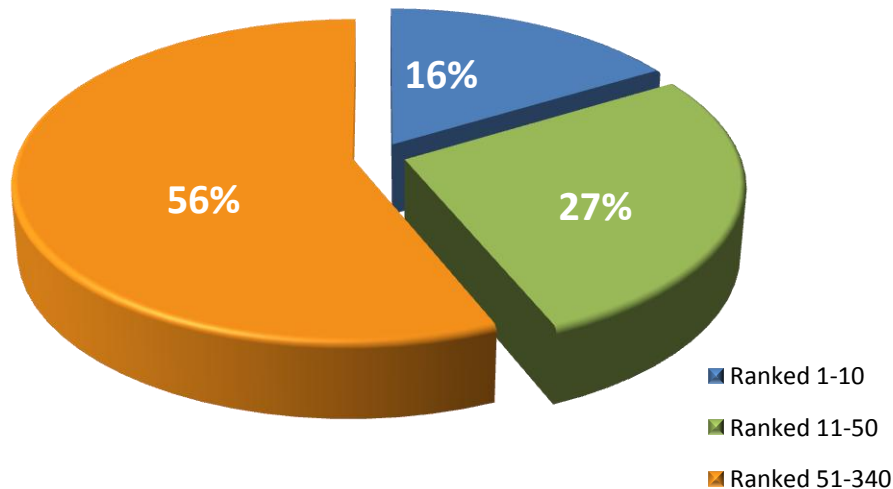
Note: Conversion, ELPS, submission quality, LVR, loan size, volume, delinquency rate and professional qualifications influence maximum rate

Mortgage Choice broking network snapshot

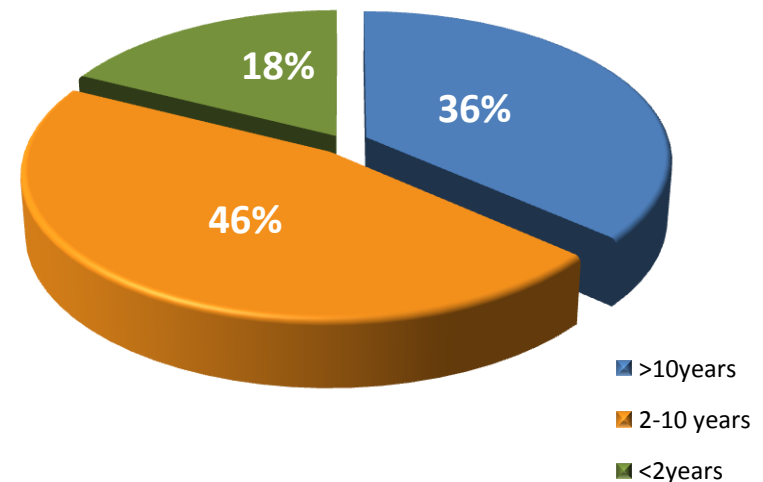
	National*		NSW&ACT		VIC&TAS		QLD		SA&NT		WA	
	<u>Dec-13</u>	<u>Dec-12</u>	<u>Dec-13</u>	<u>Dec-12</u>	<u>Dec-13</u>	<u>Dec-12</u>	<u>Dec-13</u>	<u>Dec-12</u>	<u>Dec-13</u>	<u>Dec-12</u>	<u>Dec-13</u>	<u>Dec-12</u>
Loan book	\$46.0bn	\$44.1bn	36.0%	36.7%	19.9%	19.5%	25.3%	24.6%	8.8%	9.0%	10.0%	10.2%
Loan writer	507	504	177	178	119	122	116	114	39	36	56	54
Franchise	394	386	145	146	83	81	87	86	28	24	51	49

Residential only, excludes LoanKit, HMC and MCFP

Franchise owner share of settlements



Franchise owner experience



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 31 December 2013, and does not purport to be complete in any respect.

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