

FY20 Half Year Results

19 February 2020

**Presented by Susan Mitchell (CEO)
and Ian Parkes (CFO)**

Contents

1. Executive summary	03
2. Financial performance & underlying drivers	07
3. Market update	18
4. Strategic priorities for FY20	23
5. Appendices	27

1

Executive summary

Executive Summary



IFRS NPAT
\$4.0m
Cash NPAT-
adjusted
\$6.1m

Cash NPAT-adjusted

Cash NPAT of \$5.5m adjusted to exclude one-off expense items of \$0.6m for an adjusted result of \$6.1m.



Settlements
\$5bn
Loan book
\$54.3bn

Settlements: 1H20 Improvement

Settlements up 22% on preceding six month period.



Interim
dividend
3 cents

Dividend

Interim dividend maintained at 3 cents per share supported by strong cash flow from broking business.

1H20 performance highlights



		1H20	2H19	1H19	1H20 vs 2H19	1H20 vs 1H19
NPAT	– IFRS	4.0m	7.3m	6.4m	(46%)	(38%)
	– Cash	5.5m	6.9m	7.1m	(20%)	(22%)
	– One-off items^	0.6m	-	(1.1m)	-	-
	– Cash adjusted	6.1m	6.9m	6.0m	(11%)	1%
Mortgage Broking	– Loan book	54.3b	54.3b	54.5b	-	(0.4%)
	– Settlements	5.0b	4.1b	5.3b	22%	(4%)
Financial Planning	– FUA	1.1b	1.0b	0.8b	12%	30%
	– PIF	31.2m	29.7m	28.9m	5%	8%
EPS	– Cash	4.4c	5.5c	5.7c	(20%)	(23%)
	– IFRS	3.2c	5.9c	5.1c	(46%)	(37%)
DPS	– Interim Dividend	3.0c	3.0c	3.0c	-	-

^1H20: Restructure and other one-off costs. 1H19: 1 month impact of remuneration model change (refer to slide 9).

Key drivers of result

Settlements: 1H20 Improvement

- Settlements remained subdued going into the start of FY20 with a steady pick up in activity experienced through the period. Even though settlements were down for the half on the previous corresponding period by 4% they were up 22% on the six months to 30 June 2019.

Investment in network – change of remuneration model

- The 1H20 result includes the adoption from 1 August 2018 of a new franchisee remuneration model structured to increase the quantum paid to franchisees and reduce the volatility in their earnings. 1H19 result included 5 months under the new remuneration structure whilst the current period reflects a full six months of the new structure. The impact of this was \$1.5m (\$1.1m after tax) with July 2018 being a large settlement month.
- Similarly a new financial planning adviser remuneration model was implemented from 1 October 2018 and so the current half reflects 6 months under this structure.

Operating expense

- During the half the organisation commenced a review of its organisational structure and long term strategy. As a result, one-off restructure and other costs of \$0.9m (\$0.6m after tax) are included in the result, making the normalised cash NPAT \$6.1m.

2

Financial performance & underlying drivers

Profit & loss statement



	1H20IFRS \$m	1H19IFRS \$m	Change %
Origination commission received	30.9	32.1	(4%)
Trailing commission received	44.9	45.9	(2%)
Total commission received	75.8	78.0	(3%)
Origination commission paid	24.1	24.6	(2%)
Trailing commission paid	32.5	31.6	3%
Total commission paid	56.6	56.3	1%
Net core commission	19.2	21.8	(12%)
Diversified products net revenue	0.6	0.6	(11%)
Financial Planning net revenue	0.8	0.9	(11%)
Other income	1.2	1.4	(14%)
Gross profit	21.8	24.7	(12%)
Operating expenses	15.8	15.2	4%
Share based remuneration	0.1	0.2	(33%)
Net profit before tax	5.9	9.3	(37%)
Net profit after tax	4.0	6.4	(38%)
EPS (cps)	3.2c	5.1c	(37%)
DPS (cps)	3.0c	3.0c	-

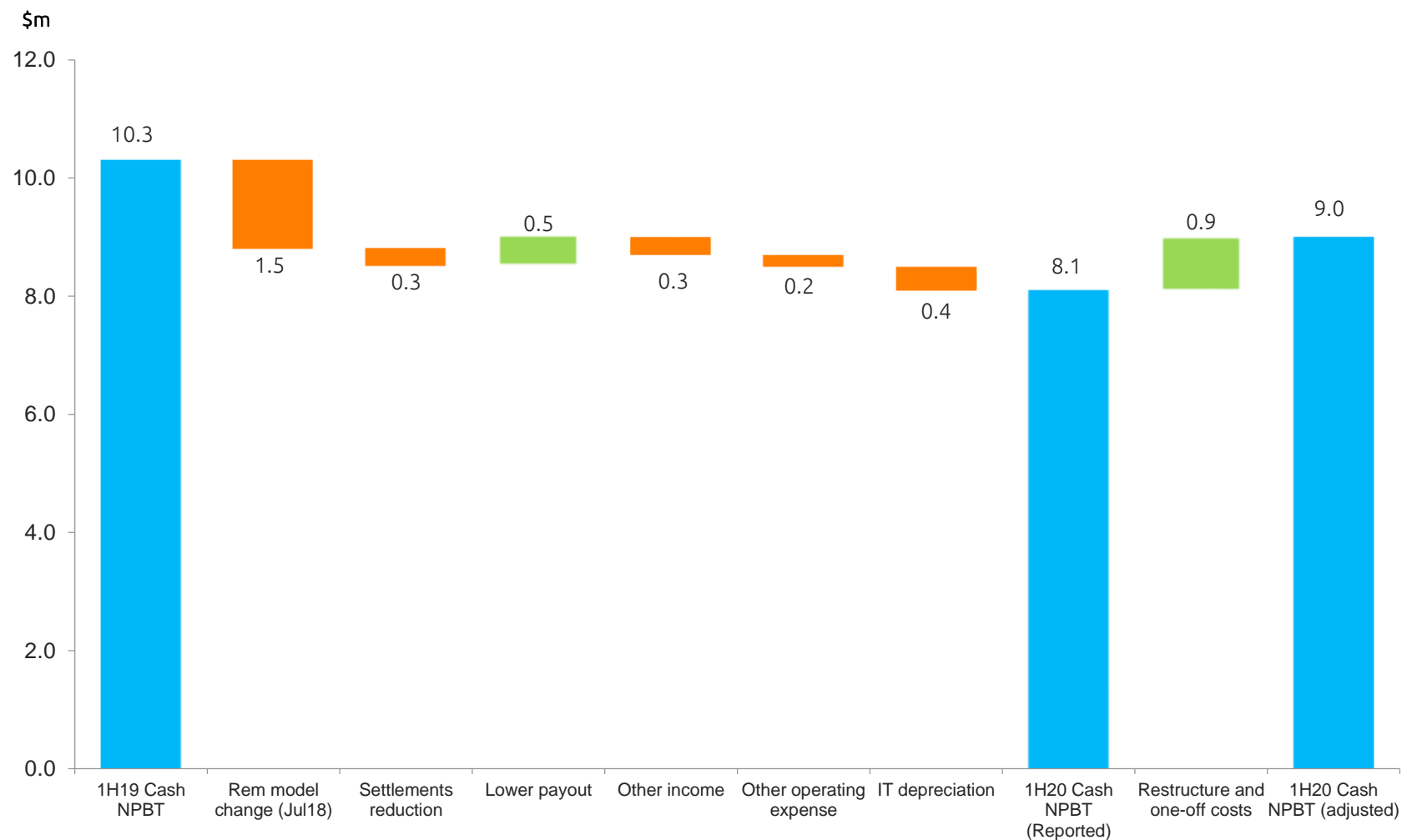
	1H20Cash^ \$m	1H19Cash^ \$m	Change %
Origination commission received	30.9	32.1	(4%)
Trailing commission received	50.1	50.2	(0%)
Total commission received	81.0	82.2	(2%)
Origination commission paid	24.1	24.6	(2%)
Trailing commission paid	35.7	35.2	2%
Total commission paid	59.8	59.8	(0%)
Net core commission	21.1	22.4	(6%)
Diversified products net revenue	0.6	0.7	(7%)
Financial Planning net revenue	0.9	1.0	(9%)
Other income	1.2	1.4	(14%)
Gross profit	23.9	25.5	(6%)
Operating expenses	15.8	15.2	4%
Share based remuneration	-	-	-
Net profit before tax	8.1	10.3	(22%)
Net profit after tax	5.5	7.1	(22%)
EPS (cps)	4.4c	5.7c	(23%)
DPS (cps)	3.0c	3.0c	-

- 1H20 cash results reflects a full 6 months of new broker remuneration model and Financial Planning remuneration model compared to 5 months in 1H19.
- The average payout ratio of 73.9% (upfront 78.0%, trail 71.4%) compared to 74.0% FY19 after August 2018 (upfront 76.4%, trail 72.5%).
- Cash expenses normalised to exclude one-off restructure and other costs of \$0.9m in 1H20 is \$14.9m, 2% down on the prior corresponding period.
- Operating Leases (property leases) are now accounted for under AASB16, and are treated the same for both IFRS and cash.

^ 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.

Cash NPBT

Net profit before tax (\$m)



- 1H20 reflects a full 6 months of new broker remuneration model, vs 5 months in 1H19.
- Lower payout ratio as a result of different settlement levels across the network between the periods.
- Other income reduction due to financial planning revenue and other revenue.
- Increase in IT depreciation and amortisation from higher investment in prior years.
- Operating expense includes restructure and one-off costs of \$0.9m in relation to organisational redesign and strategy review.

Divisional results

	1H20			1H19		
	Total \$'000	MC \$'000	FP^ \$'000	Total \$'000	MC \$'000	FP^ \$'000
Settlements		5.0b			5.3b	
Gross profit (IFRS)	21,846	21,018	828	24,732	23,808	924
Gross profit (Cash)	23,902	22,925	977	25,517	24,483	1,034
OPEX	(15,811)	(14,504)	(1,307)	(15,201)	(14,212)	(989)
EBITDA (Cash)	9,790	10,123	(333)	11,017	10,972	45
NPAT (IFRS)	3,964	4,292	(328)	6,388	6,434	(46)
NPAT (Cash)	5,541	5,774	(233)	7,142	7,107	35
NPAT (Cash adjusted)	6,139	6,309	(170)	6,042	6,007	35
YOY growth (%) (Cash adjusted)	2%	5%	n/a			

MC - broking business

- Cash results adjusted for full 6 months of remuneration model change and one-off cost increased 5%.

FP - Financial Planning business

- Financial planning result reflects new remuneration model from 1 October 2018.
- Additional IT expense associated with initial transition to new platform is not expected beyond FY21.
- The FP business does NOT include any grandfathered commissions.

^Statutory financial planning revenue for the year reflects a change in recognition for life insurance premium trail income and expense. Insurance trailing commission is now recognised upfront on a discounted basis as is trailing in accordance with AASB 15.

Operating cash flow

	1H20 \$'000	1H19 \$'000
EBITDA (cash basis)	9,790	11,017
Net interest income	238	291
Amortisation of right-of-use assets	(580)	-
Depreciation and amortisation – other	(1,357)	(992)
Net Profit Before Tax (cash basis)	8,091	10,316
Amortisation of right-of-use assets	580	-
Depreciation and amortisation – other	1,357	992
Tax paid	(2,632)	(2,770)
Purchase of fixed assets and intangibles	(1,586)	(1,951)
(Net advances) / net repayment of loans to franchisees	882	(694)
Loan book purchases	(720)	(1,695)
Other balance sheet movements*	861	154
Cash flow before borrowings and dividends	6,833	4,352
Net movement in borrowings	(2,000)	4,000
Dividends paid	(3,750)	(11,250)
Net cash movement	1,083	(2,898)

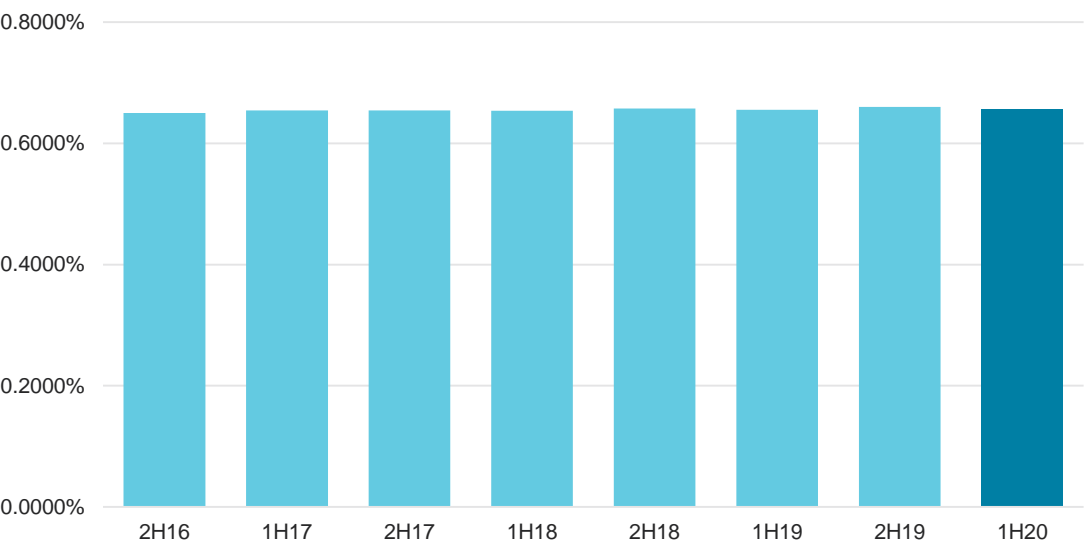
- Interim dividend of 3 cents, (fully franked), payout ratio of 67.7%.
- Depreciation and amortisation expense reflects increased IT spend which is continued in FY20.
- Amortisation of right of use asset relates to leased premises as per adoption of AASB116 in the period.
- External borrowing is repaid by March 2020.
- Loan book purchases higher in 1H19 due to one-off purchases following from remuneration model change.

*Includes prepayments, other payables and receivables.

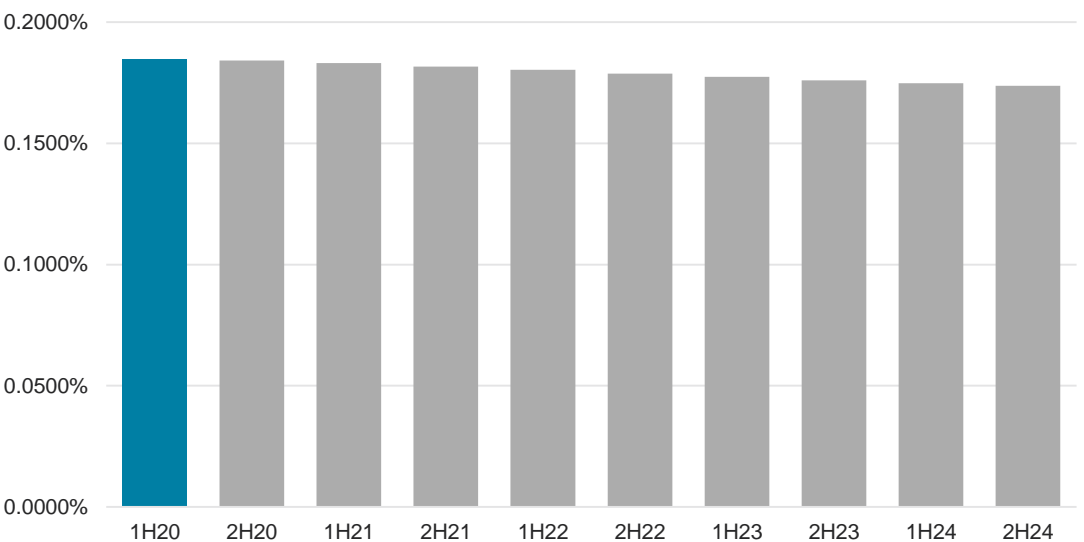
Average upfront & trail commission rates

- Average upfront rate for 1H20 is 0.6556%
- Average trail rate for 1H20 is 0.1848%

Average upfront rate (%)



Average trail rate (%)

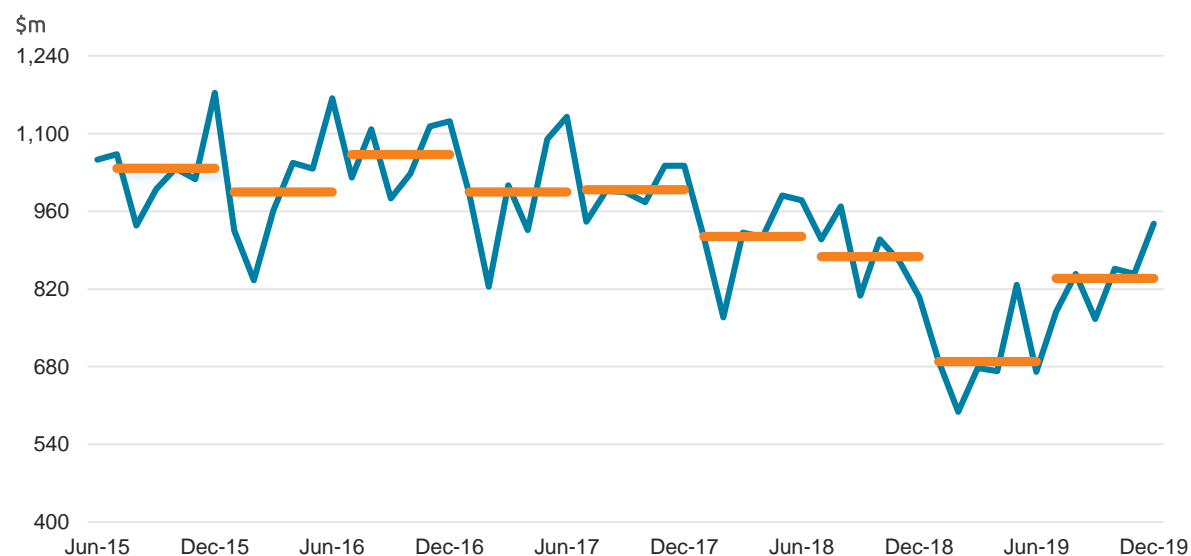


Approvals and settlements recovering in line with market

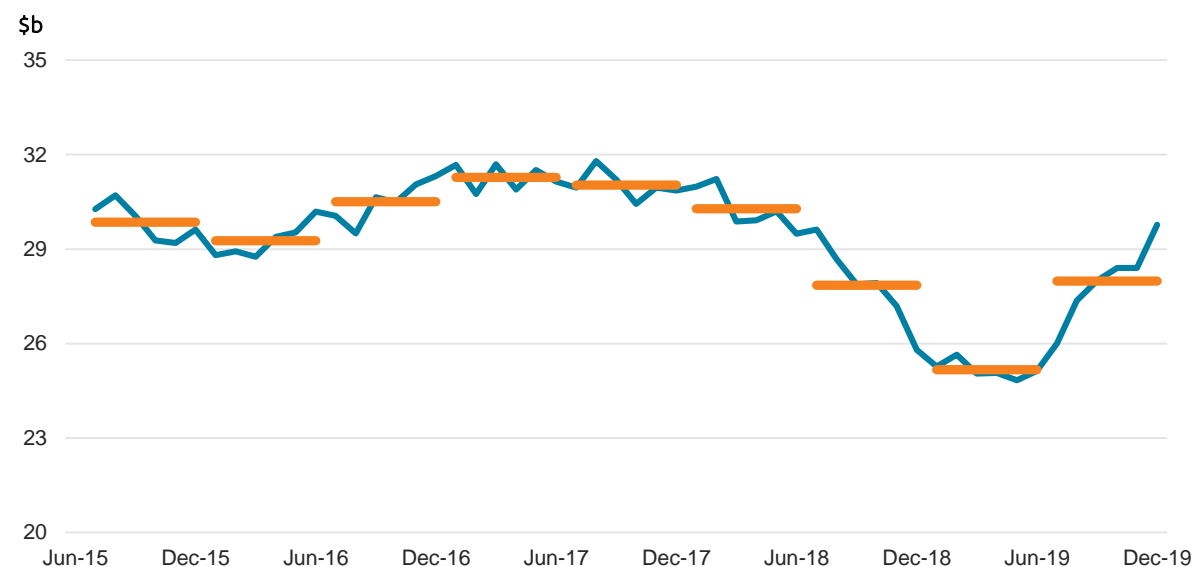


- Soft settlement flows continued into the first months of the half with an improvement in applications and approvals in the period broadly in line with market.

Mortgage Choice settlements trend (\$m)



Housing finance approvals (\$b)

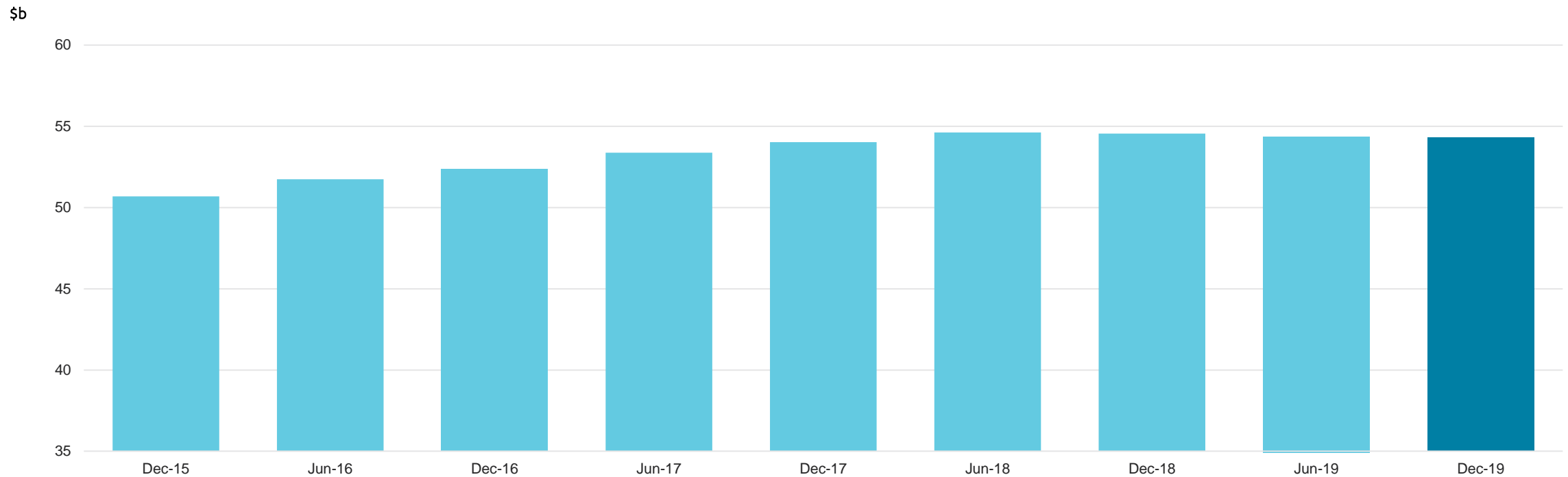


Source: ABS 5601 Table 3 and 13 – Lending to households for owner occupier and investment dwellings, December 2019 (Seasonally adjusted series), excluding internal refinance to be consistent with historical trend.

Loan book remains steady

- Settlements declined 4% on PCP but up 22% on the six months to 30 June 2019.
- Loan book \$54.3b at 31 December 2019.

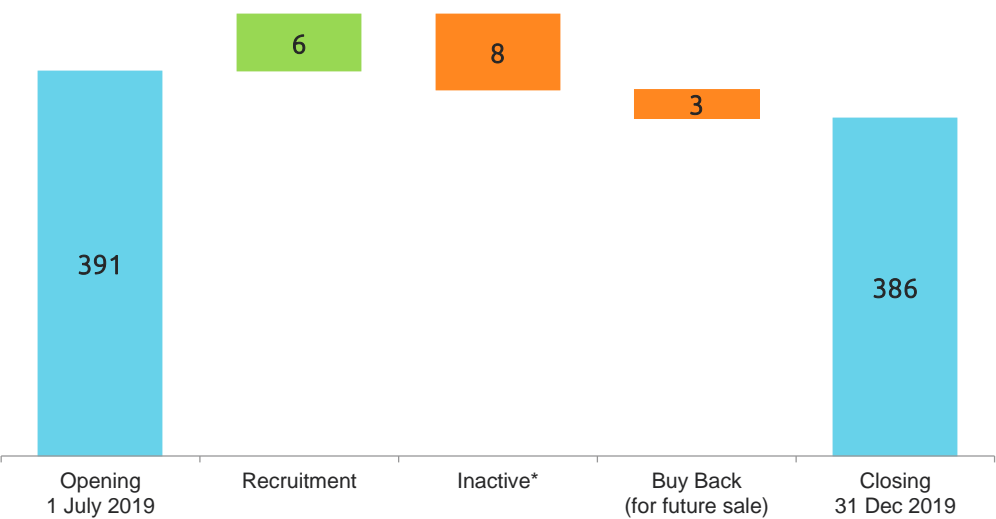
Loan book (\$b)



Broker franchise network

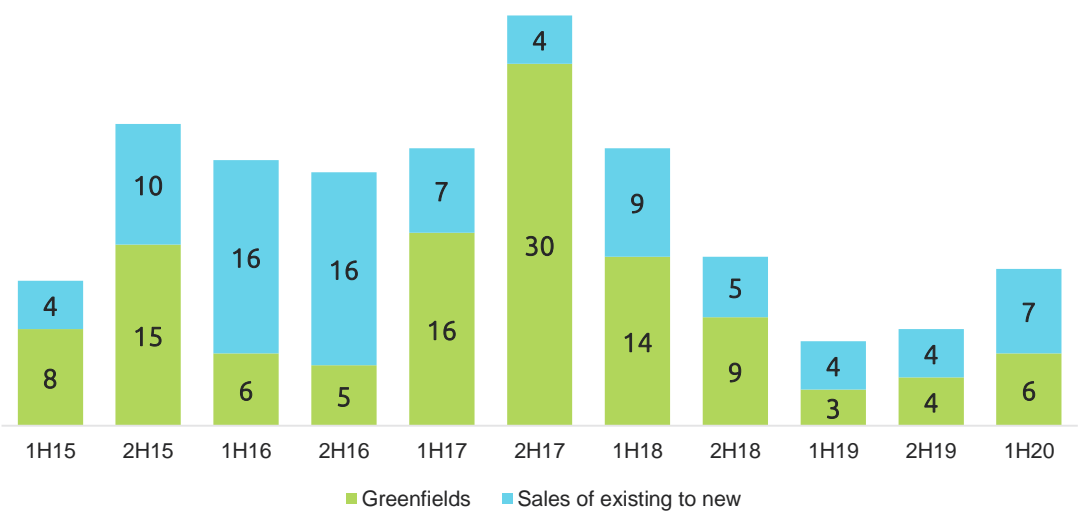
- Focused regeneration strategy resulting in increased activity with the number of new owners and new Greenfields brokers increasing on both comparatives, 1H19 and 2H19.

Franchise movement



*Inactive includes franchise suspended, franchise retired without sale, franchise terminated without sale and active franchise merged and terminated.

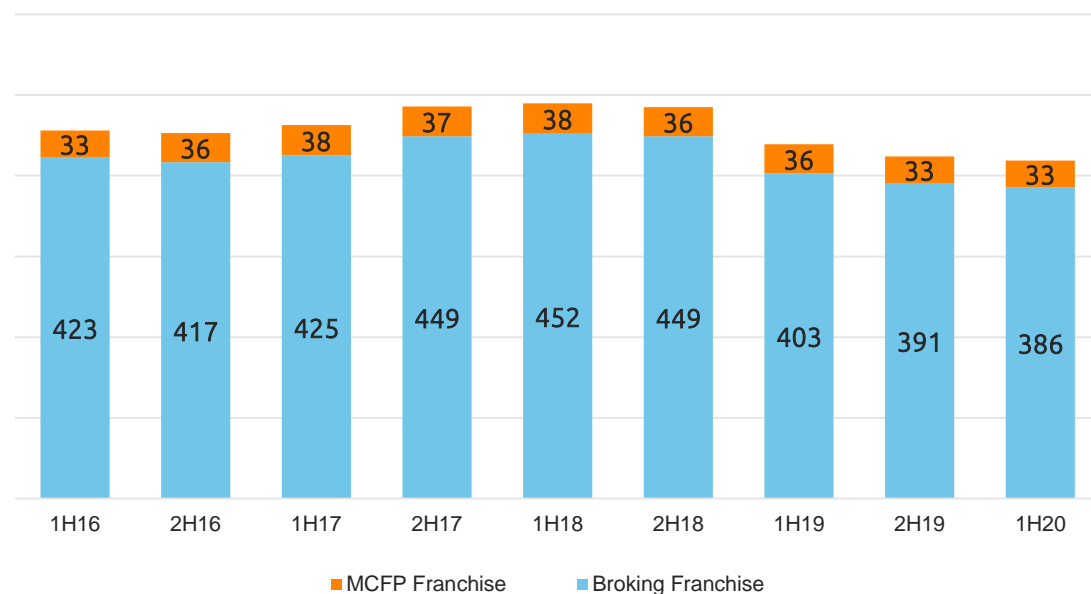
New owners



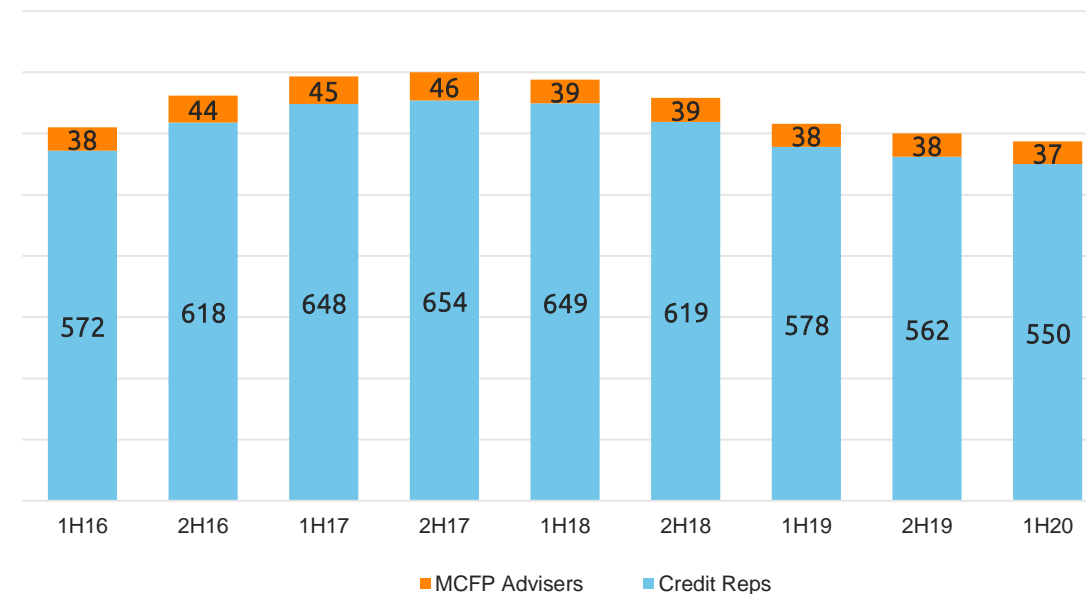
Franchise Network – Broking and Financial Planning

- New recruitment of franchisees and loan writers impacted through FY19 and in the beginning of FY20 by uncertainty surrounding the Royal Commission recommendations.
- Credit reps include 40 limited credit reps as at 31 December 2019.
- Franchisees are being encouraged to invest in additional administration and marketing support to grow businesses.

Franchise network

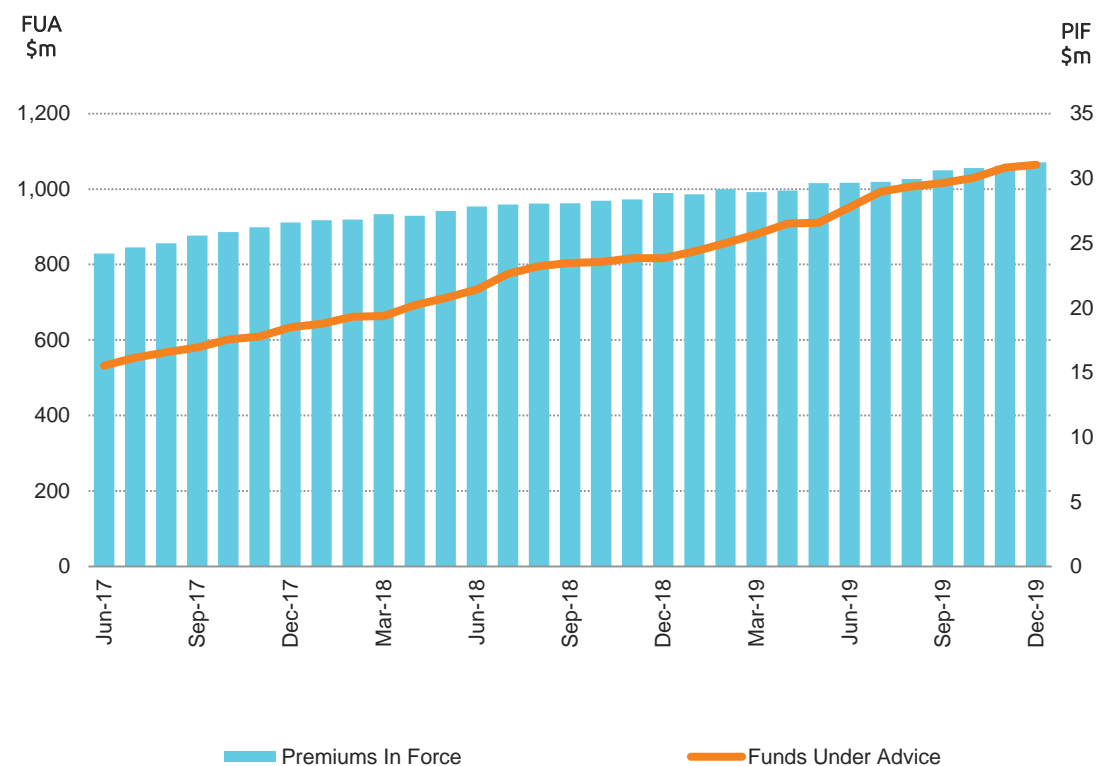


Brokers & advisers

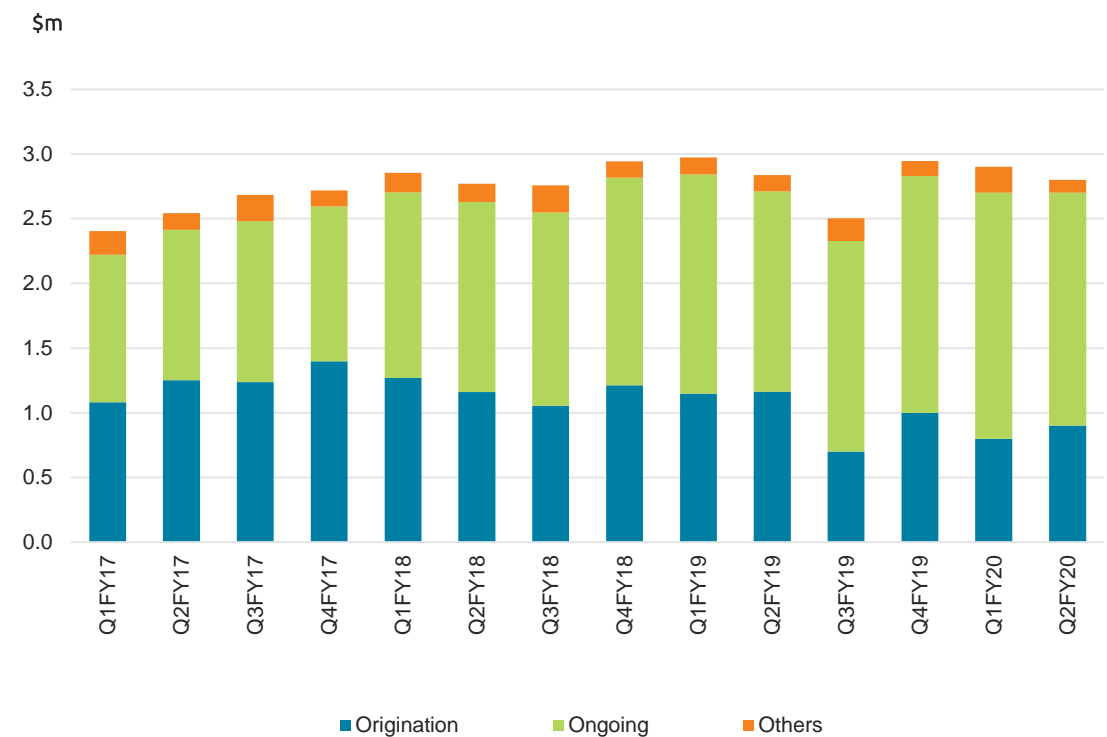


Funds Under Advice & Premiums In Force continue to grow

FUA and PIF



Gross revenue



* Includes insurance referred by broking network.

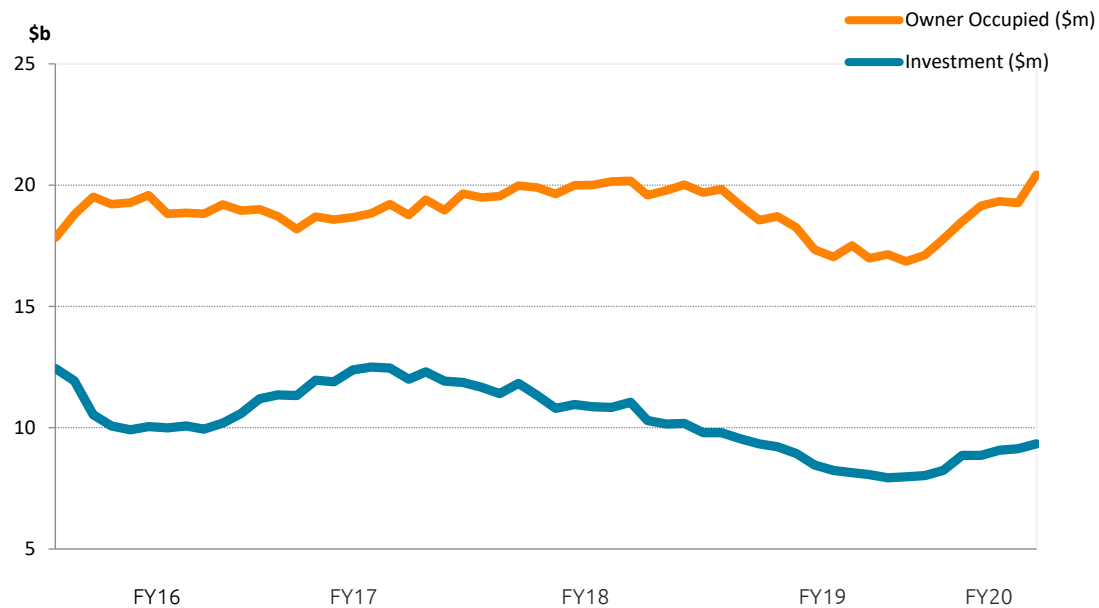
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Market update

Demand for broking services remains dominant

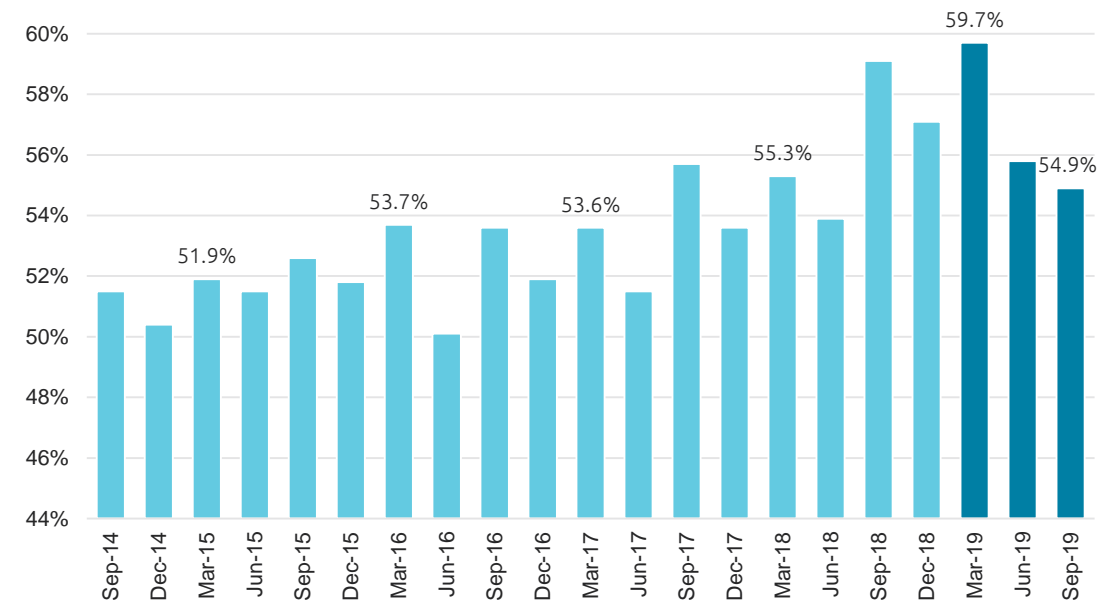
- Approvals for owner occupied loans grew steadily through 1H20.
- Broker market share at 54.9% of home loans originated via a mortgage broker reflecting continued dominance of broker channel.

Housing Finance Approvals, ABS (\$b)



Source: ABS 5601 Table 3 and 13 – Lending to households for owner occupier and investment dwellings, Dec 19 (Seasonally adjusted series).

Broker usage, MFAA (%)

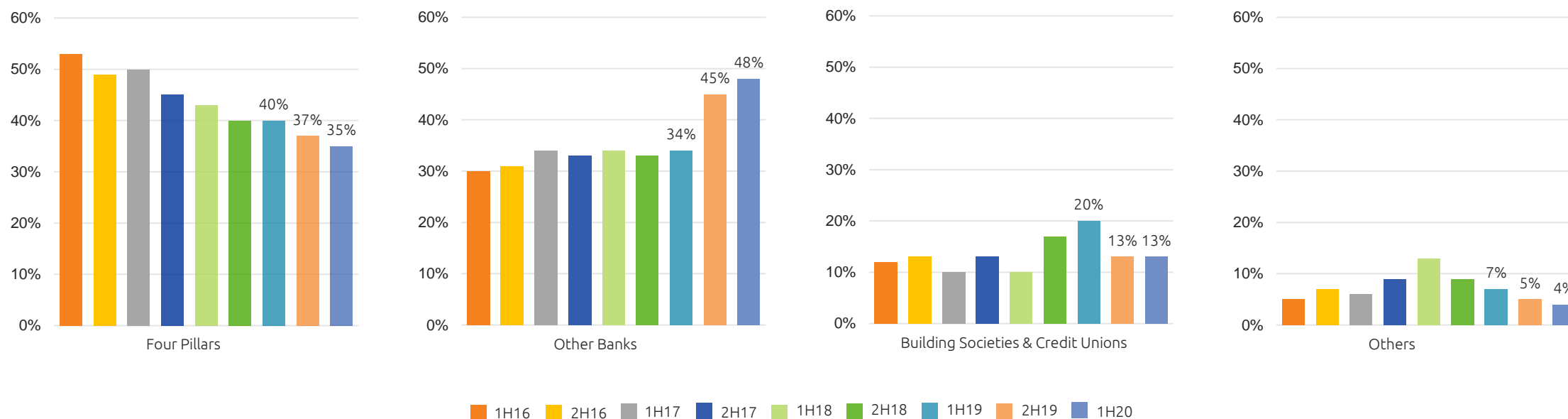


Source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Sep19 report.

Settlements continue to shift from four pillars

- Mortgage brokers continue to be at the forefront of driving competitive shift from majors to smaller banks and financial institutions.
- Four pillars continue to lose market share as consumers increasingly look to smaller banks and niche lenders. Four pillars including St. George and Bankwest fell from 52% to 47% in 1H20.
- White label product withdrawn in the second half of FY19. The new white label offering was launched in February 2020 in partnership with Pepper Money.

Mortgage Choice residential settlements by lender (%)



Four Pillars includes primary brands CBA, ANZ, NAB and Westpac.

Other banks includes Adelaide Bank, AMP Banking, BankWest, Citibank, Gateway Bank Limited, Heritage Bank, HSBC Bank, ING Direct, Macquarie Mortgages, ME Bank, Qudos Bank, St George Bank / Bank SA / Bank of Melbourne and Suncorp.

Indications of home loan market recovery



House Price Recovery - The national housing market experienced a turnaround in the second half of 2019. The rebound continues into 2020 with the annual growth rate rising to 4.1% in January. Since finding a floor in June 2019, the national dwelling index has recovered by 6.7%.

Interest Rate Movement - Three reductions to the official cash rate by the Reserve Bank of Australia to a record low 0.75% has led to a reduction in home loan interest rates.

First Home Buyer activity has increased - As of December 2019, the number of first home buyers in the market rose 21.3% YoY (ABS 5601.0) due to increasing opportunity created by a low interest rate environment. We expect the introduction of the First Home Loan Deposit Scheme to create further demand from this buyer segment.

Credit Appetite – Oversight by APRA continues to set the new norm of tighter lender policy with Comprehensive Credit Reporting presenting potential new impact.

Regulatory Changes - On the 6th of February, the Financial Sector Reform (Hayne Royal Commission Response - Protecting Consumers [2019 Measures]) Bill 2019 passed both houses. The new Best Interest Duty obligations will apply to mortgage brokers from 1 July 2020 and will require a significant level of process change as well as an increased level of documentation for the industry. Other regulatory changes are also in train covering monitoring and controls around broker misconduct across the industry. We remain well placed to adapt our existing systems and processes to the new and pending legislation.

Committed to financial planning opportunities



Industry in transition

- Rapid change continues in the financial advice space.
- Restructuring of wealth businesses across a number of Australia's financial institutions provides Mortgage Choice Financial Planning with the opportunity to attract quality advisers to its network.
- This is happening at a time when a new series of regulatory reforms are starting to come into force, including new competency standards for financial advisers set by the federal government's Financial Adviser Standards and Ethics Authority (FASEA).

Mortgage Choice Financial Planning – a unique proposition

- Appointed Dean Thomas as Chief Advice Officer to head up the MCFP business.
- Reviewing brand and value proposition to reflect rapidly changing industry dynamics.
- Targeted approach being taken for recruitment and network growth.
- Continue to enhance advisor practice and customer platforms.
- Continued roll out of Xplan whilst supporting strong compliance culture.

4

Strategic priorities for FY20

Our strategic direction

We have made progress in reviewing the longer term strategy and believe we have a strong foundation to maximise the benefit of an improvement in market conditions and grow our customer base. The key focus areas for the year is centred around regenerating the broker network, growing the adviser network and continuing to invest in our IT systems and Mortgage Choice brand, while responding to regulatory change. We believe this is essential to building a long-term sustainable business.

FY20 and beyond

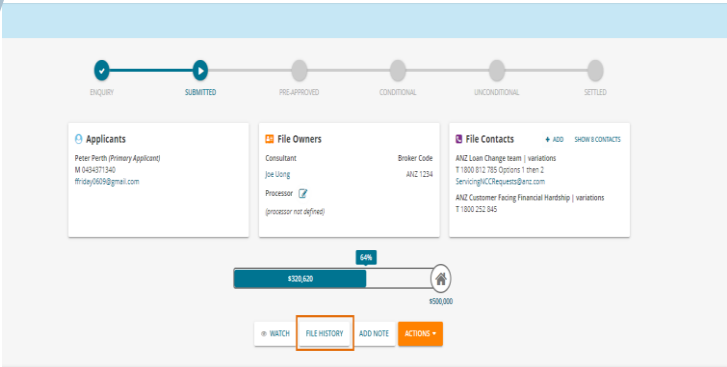
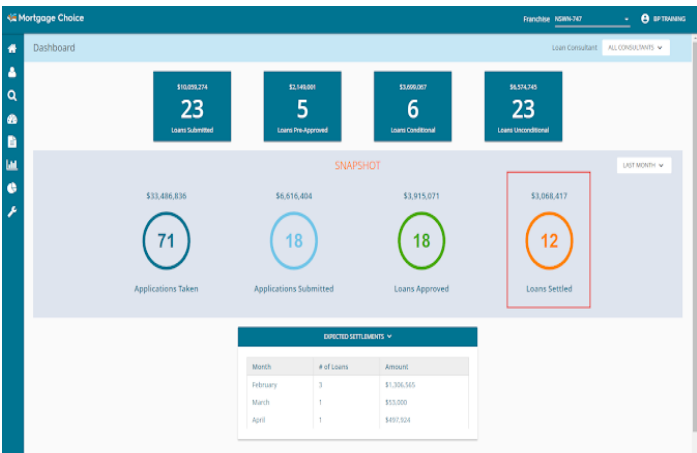
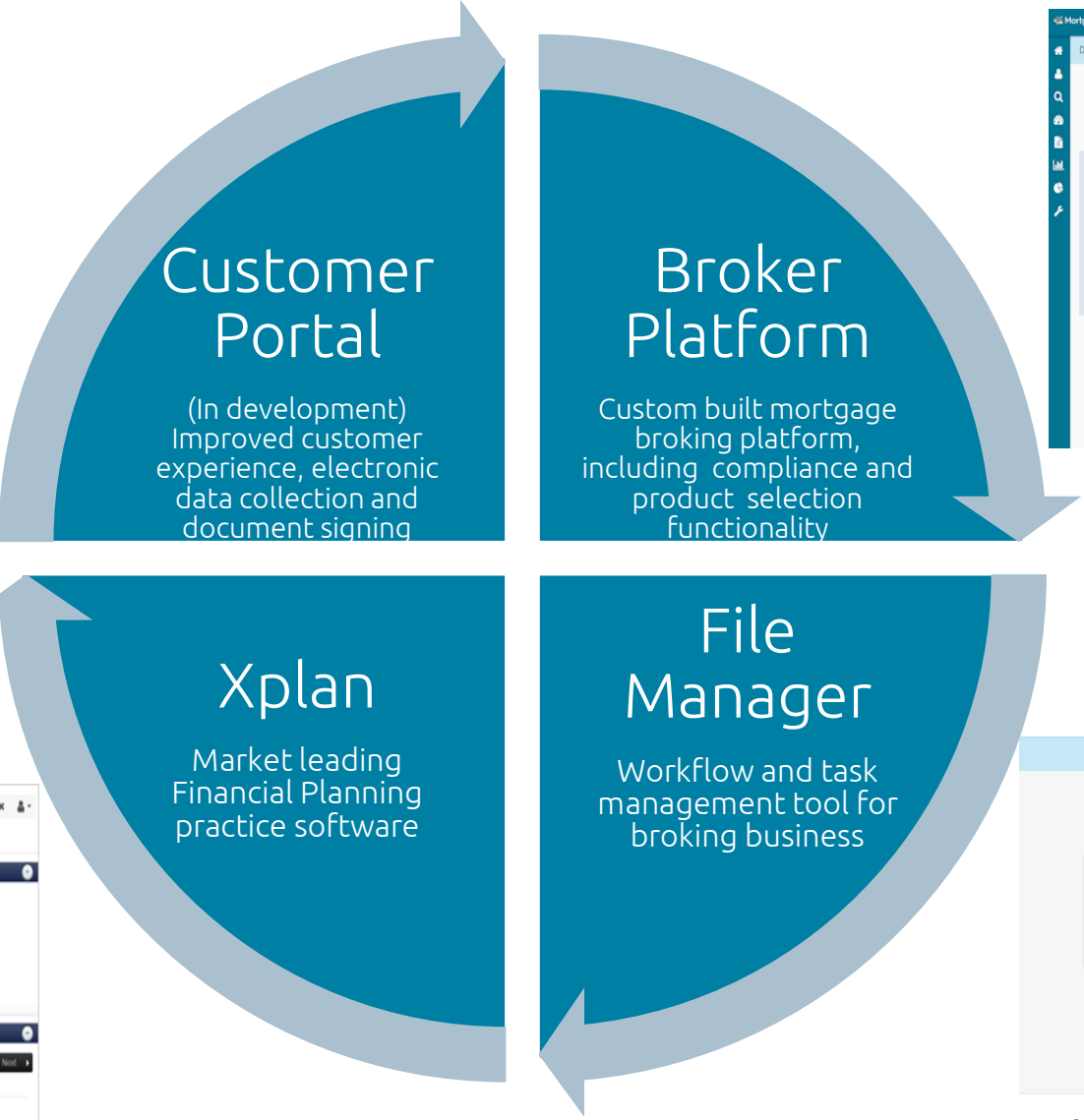
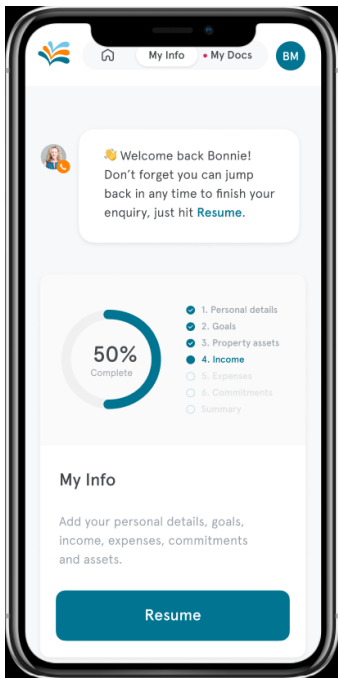
- **Attract brokers and advisers**, regenerate the broker network and grow scale in the financial planning network.
- **Attract customers** through leverage of national brand.
- **Structure the business for success** with a continued focus on reducing costs while maintaining service support to brokers and advisers.
- **Maintain our investment in IT** with a focus on back office automation and an improved digital customer experience.



Progress

- **Targeted recruitment** activity showing early signs of success with network stabilised and sales of existing practices increasing in the half.
- **New brand strategy** being implemented with a focus on digital capabilities and improving customer experience.
- **Organisational Restructure** in the half with new capabilities added and head office functions reviewed to ensure alignment with strategic priorities resulting in ongoing efficiencies.
- **Ongoing program** of work continued with focus in the half on enhancing data and digital customer and broker/advisor experience.

Leading IT platforms supporting growth



Improving market conditions

- Cash NPAT of \$5.5m and adjusted Cash NPAT of \$6.1m with settlement activity improving 22% through the half.
- Application and approvals building going into the second quarter of 1H20 supported by positive market conditions.
- Our focus is to attract new brokers, new advisers and more customers while continuing to invest in IT.
- Strong focus on addressing and adapting to any regulatory changes i.e. Best Interest Duty legislation. We are well placed to adapt our existing systems as required.

5

Appendices

5 Year stats – P/L

\$m	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20
Origination inc	37.52	35.32	39.28	36.57	36.21	33.81	32.09	25.77	30.89
Origination exp	(27.10)	(25.84)	(28.46)	(26.15)	(24.84)	(24.00)	(24.64)	(19.74)	(24.08)
Cash Trail inc	47.42	47.76	48.39	48.30	49.29	49.17	50.16	49.67	50.07
Cash Trail exp	(28.85)	(29.00)	(29.41)	(29.69)	(29.88)	(30.03)	(35.18)	(35.95)	(35.73)
Net Upfront	10.42	9.48	10.82	10.43	11.37	9.81	7.45	6.03	6.81
Net Trail	18.58	18.76	18.98	18.61	19.41	19.14	14.98	13.72	14.34
Net Commission	28.99	28.24	29.80	29.03	30.78	28.94	22.43	19.75	21.14
Other Income	5.37	3.20	3.13	5.80	3.45	5.25	3.09	4.09	2.76
Cash PAT	10.09	10.46	11.72	10.91	12.54	10.84	7.14	6.89	5.54
IFRS PAT	10.75	8.79	11.43	10.74	11.44	(7.20)	6.39	7.34	3.96
Cash e.p.s.	8.1 c	8.4 c	9.4 c	8.7 c	10.0 c	8.7 c	5.7 c	5.5 c	4.4 c
IFRS e.p.s.	8.6 c	7.1 c	9.2 c	8.6 c	9.2 c	(5.8) c	5.1 c	5.9 c	3.2 c
Div p.s.	8.0 c	8.5 c	8.5 c	9.0 c	9.0 c	9.0 c	3.0 c	3.0 c	3.0 c
Upfront Payout	72.2%	73.2%	72.5%	71.5%	68.6%	71.0%	76.8%	76.6%	78.0%
Trail Payout	60.8%	60.7%	60.8%	61.5%	60.6%	61.1%	70.1%	72.4%	71.4%
Total Payout	65.9%	66.0%	66.0%	65.8%	64.0%	65.1%	72.7%	73.8%	73.9%
Volumes MC									
Settlements # '000	19.80	19.10	20.01	18.56	18.46	15.91	15.17	12.42	14.67
Settlements \$b	6.23	5.97	6.37	5.97	5.99	5.49	5.27	4.14	5.03
Approvals \$b	7.22	6.78	7.29	6.78	6.93	6.19	5.87	4.93	6.00
Market \$b*	185.07	171.29	188.58	182.29	190.91	175.39	172.69	144.43	174.97
Market Share	3.9%	4.0%	3.9%	3.7%	3.6%	3.5%	3.4%	3.4%	3.4%
Avg Residential Loan Book \$b	49.73	50.70	51.54	52.52	53.32	53.90	54.19	53.97	53.89

*Source: ABS 5601 Table 05, 12, 15, 22, 06, 10, 16, 20, 07, 17, 08, 11, 18, 21, 09 and 19– Lending to households for owner occupier and investment dwellings, Dec 19 (original series, non seasonally adjusted).

Balance sheet

	Dec-19 \$'m	Jun-19 \$'m
Assets		
Current assets		
Cash and cash equivalents	3.0	1.9
Trade and other receivables	16.5	13.8
Contract assets	92.6	92.5
Total current assets	112.1	108.2
Non-current assets		
Receivables	3.5	4.2
Contract assets	277.8	283.9
Property, plant and equipment	0.6	0.7
Right to use assets	4.0	-
Intangible assets	10.4	10.1
Total non-current assets	296.3	299.0
Total assets	408.4	407.2
Liabilities		
Current liabilities		
Trade and other payables	81.8	77.7
Lease liabilities	1.1	-
External borrowings	0.5	2.5
Current tax liabilities	0.8	0.5
Provisions	1.2	1.3
Total current Liabilities	85.4	82.1
Non-current liabilities		
Trade and other payables	201.2	205.7
Lease liabilities	3.2	-
Deferred tax liabilities	31.1	32.2
Provisions	0.7	0.7
Total non-current liabilities	236.3	238.6
Total liabilities	321.7	320.7
Net assets	86.7	86.5
Equity		
Contributed equity	8.1	8.1
Reserves	1.5	1.4
Retained profits	77.1	77.0
Total equity	86.7	86.5

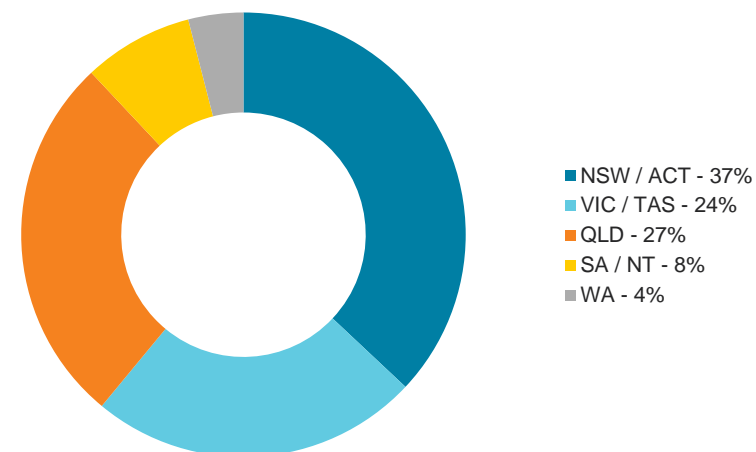
Cash flow statement

	1H20 \$'000	1H19 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	95,808	96,163
Payments to suppliers, franchisees and employees (inclusive of goods and services tax)	(85,198)	(86,660)
Net	10,610	9,503
Income taxes paid	(2,632)	(2,770)
Net cash inflow from operating activities	7,978	6,733
Cash flows from investing activities		
Payments for property, plant, equipment and intangibles	(1,586)	(1,951)
Net repayment of/(increase in) loans to franchisees	882	(694)
Proceeds from sale of property, plant and equipment	-	-
Interest received	257	306
Net cash (outflow) from investing activities	(447)	(2,339)
Cash flows from financing activities		
Proceeds/(repayment) of external borrowings	(2,000)	4,000
Payment of lease liabilities	(652)	-
Interest paid	(46)	(42)
Dividends paid	(3,750)	(11,250)
Net cash (outflow) from financing activities	(6,448)	(7,292)
Net increase/(decrease) in cash and cash equivalents held	1,083	(2,898)
Cash and cash equivalents at the beginning of the half-year	1,927	3,353
Cash and cash equivalents at the end of the half-year	3,010	455

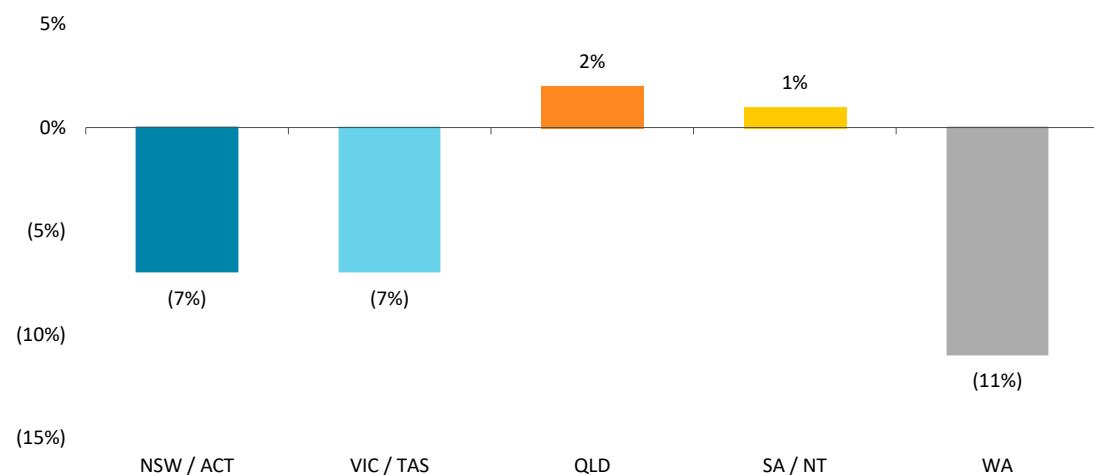
Settlements by state

Settlements	1H20 \$m	%	1H19 \$m	%	Growth
NSW / ACT	1,865	37%	2,015	38%	(7%)
VIC / TAS	1,192	24%	1,288	24%	(7%)
QLD	1,372	27%	1,339	25%	2%
SA / NT	385	8%	382	7%	1%
WA	219	4%	245	5%	(11%)
	5,033	100%	5,269	100%	(4%)

States' contribution to settlements

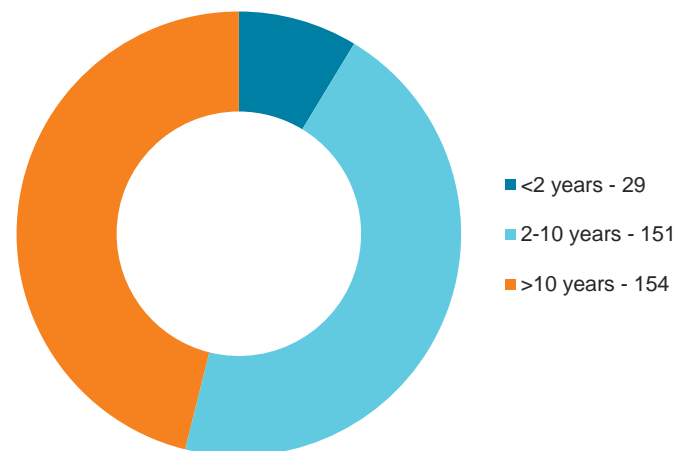


Settlements growth 1H20 / 1H19 (%)

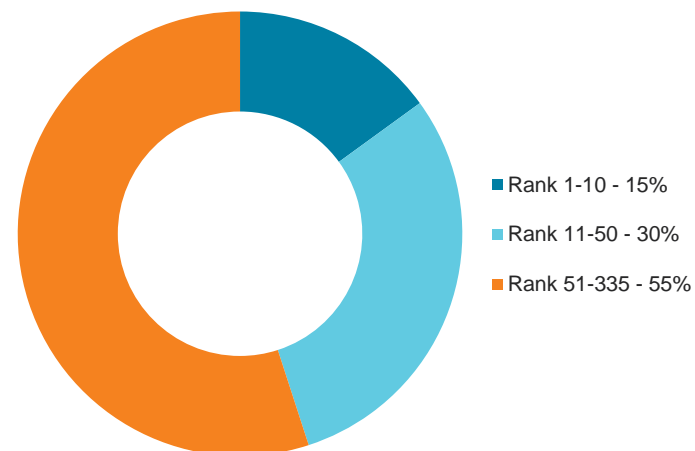


Network snapshot

Franchise owner experience



Franchise owner share of settlements



	National		NSW/ACT		VIC/TAS		QLD		SA/NT		WA	
	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Loan book (\$b)	54.3	54.5	36.5%	36.3%	20.1%	20.0%	27.5%	27.2%	8.0%	8.2%	8.0%	8.4%
Loan writer (incl LCR)	550	578	188	199	138	139	131	139	46	49	47	52
Franchise	386	403	143	150	98	102	84	89	26	26	35	36

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For further information

Visit: www.mortgagechoice.com.au

or contact:

Emma Dupont-Brown

General Manager, Product and Corporate Communications

P 0422 219 833

E emma.dupont-brown@mortgagechoice.com.au

Graciela Gomez

Corporate Communications Executive

P (02) 8907 0407

E graciela.gomez@mortgagechoice.com.au

