MOELIS AUSTRALIA

ASX ANNOUNCEMENT

3 April 2020

# COVID-19 MARKET UPDATE

## Key Operating Considerations

- **Strong Balance Sheet** – Well positioned with in excess of $110m of available cash plus ~$150m in investment assets[1]
- **Sustainable Operating Cash Flow** – Contractual base asset management fees plus expected equity commissions exceed fixed operating costs
- **Cost Management Initiatives** – Undertaken to improve net operating cashflow surplus. Largely relates to voluntary temporary reductions in executive compensation
- **Diversified Sources of Capital** – Including domestic and international HNW and institutional investors
- **Funds with Significant Cash** – Some funds have material cash reserves to participate in investment opportunities as they arise

## Market Commentary

As we have consistently advised the market, Moelis Australia has been cautious about market conditions for some time. This caution has seen us maintain considerable cash balances (on our balance sheet and within many of our managed funds), invest in our executive function and people and pivot our investment focus to more defensive investment strategies, in particular credit.

Whilst the impact of the global COVID-19 pandemic on the economy has been profound we believe we are well positioned to trade through the current market dislocation and importantly are strongly positioned as the world emerges from this crisis.

## Asset Management Update

Redcape Hotel Group (~$1.2 billion of AUM[2]) has been significantly impacted by the government mandated temporary closure of Australian hotels. Redcape entered COVID-19 with gearing at the bottom end of its target

[1] At 29 February with all listed investments (including Redcape Hotel Group) held at their close price on the ASX at 31 March 2020
[2] Assets under management

range (36% LVR[3]), no near-term debt expiry and a flexible cost structure. Operating cost within the business ha been reduced to ensure that Redcape can withstand an extended period of mandated closure of its hotels. The Redcape hotel assets are high quality venues that should continue to be an important part of the local community's social fabric when the venues re-open.

Our retail shopping centres (~$1.8 billion of AUM) are facing very difficult trading conditions given the impact COVID-19 is having on consumer behaviour and the government-imposed restrictions on trade. These challenges are being felt by shopping centre owners nationally and globally.

Our current view is that the recovery of retail shopping centres is likely to be difficult and protracted, due to lower tenant demand coupled with a weaker consumer.

We manage ~$900 million across a variety of credit strategies which were designed for difficult market conditions and we believe are well positioned to withstand market dislocation. Importantly, our exposure to legal disbursement funding is proving to be non-correlated to the COVID-19 market dislocation and we continue to grow our exposure to this asset class.

Our focus on credit was increased last year as we looked to provide investors with defensive assets late in the cycle. We have invested materially in setting up the processes and systems to prudently manage our credit assets. We believe that credit has meaningful growth opportunities across a range of investment strategies.

**Capital Partners and AUM**

Our capital sources are diverse across domestic and international high-net-worth investors, institutional investors and retail investors.

Gross outflows across our managed funds are relatively small and less than new inflows from domestic and international investors since 1 January 2020. The majority of outflows were anticipated prior to the outbreak of COVID-19 and relate to Significant Investor Visa (SIV) investors obtaining permanent residency.

We believe the uniqueness of our asset management business sourcing investment funds from China will continue to be a strength and it is encouraging that our executives located in China are starting to have one-on-one meetings after the easing of government-imposed lock downs. Our Chinese clients continue to view Australia as an attractive investment and migration destination.

We also have a number of discretionary funds with substantial cash particularly with property and private equity/venture capital investment mandates. We will be prudent and patient in deploying capital.

[3] Net Debt / (Total Assets Less Cash)

**Corporate Advisory and Equities**

Our Corporate Advisory and Equities divisions are being impacted by volatile and weaker equity markets. It is too early to say if our targeted revenue productivity range of $1.1 million – $1.3 million per head can be achieved. We note that during the Global Financial Crisis our advisory business remained highly productive, greatly assisted by our leadership in restructuring. Pleasingly, our Equities commissions are strong year to date and Corporate Advisory revenue booked year to date is above what was achieved at the same time last year.

Chris Wyke, Joint CEO, commented, "Our unique combined capabilities in restructuring, real estate and ECM will be needed by our existing and new clients through the current period and the recovery which will follow."

**Borrowings**

We have $57 million of core borrowings which are guaranteed by Moelis Australia. A $32 million tranche of our core borrowings is repayable in September 2020 with the remaining $25 million repayable in September 2022. As advised in our full year 2019 results we are advancing either the refinancing or retirement of the $32 million tranche. Our cash position gives us considerable flexibility in this regard. Our core borrowings relate to a note programme to high net worth investors with limited covenants.[4]

We have a further $35 million limited recourse note series which were issued in relation to a credit fund offering. The notes are currently collaterised by a majority of cash (approximately 70%) and loan investments and offer investors a coupon equal to the RBA cash rate + 4.35% per annum. These notes are held by investors under the SIV programme and have maturity dates up to May 2024. Given the nature of the noteholders, we anticipate that potential redemptions would be spread over the full term of the note as permanent residency is received by individual investors.

**Operating Costs**

From an operating cost perspective, we are focused on carefully managing our fixed costs and have implemented a number of initiatives including the Board members and Joint CEOs taking a temporary 25% reduction in their fixed compensation with effect from April 2020, which will be reviewed in six months.[5]

The majority of Moelis Australia staff have agreed to accept the same or smaller temporary reductions in salary based on seniority.

[4] As per ASX Announcement 18 September 2017
[5] All other terms and conditions of employment for Joint CEOs and Board members remain unchanged

We believe that it is prudent in the current environment to actively manage costs.

In addition, Moelis Australia's compensation has a large variable component which provides a significant lever to manage our cost base relative to business performance.

**Summary**

We believe Moelis Australia is well placed to navigate the current economic environment.

Our contractual base management fees and expected equity trading commissions cover our fixed cost base. In addition to this, we have material revenue opportunities in Corporate Advisory, ECM, principal investments and Asset Management. We have substantial cash holdings, both on our balance sheet and in many of our managed funds available to deploy as opportunities arise.

We are focused on prioritising our efforts to protect the business and its investments and will look to take advantage of opportunities as economic conditions are better understood. That said, we will continue to exercise patience and discipline when deploying client and balance sheet capital.

Executives of Moelis Australia own in excess of 30% of the company which should provide all shareholders with comfort that management is significantly aligned with their interest.

Julian Biggins, Joint CEO said "In times such as these we believe the businesses that will best weather these difficult markets must have capital, strong corporate governance and exceptional executive talent. Moelis Australia has all three critical elements which bodes well for its future."

ENDS

**Authorised for release by the Board of Directors, Moelis Australia Limited.**

Mike Pyke
Investor Relations
Tel: 02 8288 5555