



**Yellow Brick Road Holdings Limited**  
**(ASX: YBR)**  
**INVESTOR UPDATE H1 FY2017**

**Executive Summary**

H1 FY2017 has delivered Yellow Brick Road Holdings Limited (the 'Company') a maiden profit as a result of a focused and disciplined business approach and back to basics cost control. Net profit after tax is \$0.4m, a \$4.5m improvement on H1 FY2016 (loss of \$4.1m). The Company's Underlying EBITDA (which excludes non-operating costs) was \$3.1m, a \$5.1m improvement on H1 FY2016 (loss of \$2.0m).

The Wealth business gained strong momentum with revenue growth of 25%, including a 29% improvement in recurring revenues. Recurring revenue growth was derived from a 28% increase in underlying Funds Under Management (FUM) and a 20% increase in Premiums Under Management (PUM) since 30 June 2016.

The Lending business continues to perform strongly. Apart from an anticipated drop in settlement volumes from Vow Flat Fee lending (which is low margin and had minimal impact on the bottom line), all lending distribution channels - including other Vow lending - exceeded market\* growth. A highlight was the YBR network's 20% settlement growth. The drawn value of the Company's underlying loan book grew 11% to \$41b (30 June 2016: \$37b) and the embedded value of the underlying loan book, capitalized on the Company's balance sheet, grew 6% to \$46.1m (30 June 2016: \$43.3m). This strong performance has been achieved despite a tightening regulatory framework and with restrictions on offshore borrowers constraining market growth.

Central to this outcome has been a focus on delivering results that are sustainable so that the momentum and business efficiencies achieved benefit our shareholders' long-term value. H1 2017 has also been a period of transition for the Company, with three new General Managers responsible for Yellow Brick Road Lending, Yellow Brick Road Wealth Management and Vow Financial appointed. Their respective experience and skill sets will drive positive and value added outcomes into the future.

In this investor update we will review progress towards the strategic operating priorities we articulated for the Company in the FY2016 Investor update. It has been a transformational half-year and the momentum we achieved will continue to build throughout H2 FY2017.

\*Market growth 1.05% per RBA D06 Lending Commitments all lenders

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## Financial Performance

Consolidated Profit & Loss		1H 2016	1H 2017	% VAR
		\$'m	\$'m	
<b>Total Revenue</b>		<b>116.17</b>	<b>106.08</b>	<b>(9%)</b>
Cash Revenue Lending	- Origination	48.57	47.22	(3%)
	- Recurring	31.43	38.01	21%
	- Scale Income	1.51	1.47	(3%)
<b>Total Lending</b>		<b>81.52</b>	<b>86.69</b>	<b>6%</b>
Cash Revenue Wealth	- Origination	3.00	3.68	23%
	- Recurring	1.84	2.38	29%
<b>Total Wealth *</b>		<b>4.84</b>	<b>6.06</b>	<b>25%</b>
<b>Cash Revenue From Continuing Operations</b>		<b>86.36</b>	<b>92.76</b>	<b>7%</b>
Cash Revenue Accounting Practice		1.49	0.18	(88%)
<b>Total Cash Revenue</b>		<b>87.85</b>	<b>92.94</b>	<b>6%</b>
<b>Gross Profit From Continued Operations</b>		<b>15.83</b>	<b>17.53</b>	<b>11%</b>
Gross Profit Accounting Practice		1.23	0.14	(89%)
<b>Total Gross Profit</b>		<b>17.06</b>	<b>17.67</b>	<b>4%</b>
Operating Costs		(20.41)	(16.65)	(18%)
Non Operating Costs		(2.60)	(0.73)	(72%)
<b>Net (Loss) Profit Before Taxation</b>		<b>(5.95)</b>	<b>0.28</b>	
<b>Net (Loss) Profit After Taxation</b>		<b>(4.05)</b>	<b>0.39</b>	
<b>Underlying Net (Loss) Profit Before Taxation</b>		<b>(3.35)</b>	<b>1.24</b>	
<b>EBITDA</b>		<b>(4.55)</b>	<b>2.12</b>	
<b>Underlying EBITDA</b>		<b>(1.96)</b>	<b>3.08</b>	

\* includes share of profits of Joint ventures accounted for using the equity method

The key features of the Company's financial performance for the six months to 31 December 2016 are:

- Net profit after tax of \$0.4m
- Underlying EBITDA \$3.1m
- 25% increase in Wealth revenue by \$1.2m to \$6.1m
- 6% increase in cash Lending revenue by \$5.2m to \$86.7m
- 3% decline in lending scale income
- 11% increase in gross profit from continuing operations by \$1.7m to \$17.5m
- 18% decrease in operating costs by \$3.8m to \$16.7m.
- 6% increase in embedded value of underlying loan book to \$46.1m. This is equivalent to 16.4 cents per share.

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Key fundamentals underlying the Company's financial performance for the 6 months to 31 December 2016 are:

- 28% increase in underlying Funds under Management (FUM) to \$930m
- 20% growth in Premiums under Management (PUM) to \$14.7m
- 20% increase in YBR settlement volumes
- 11% decrease in Vow Flat fee (low margin) settlements
- 2% increase in Vow Non-Flat fee settlements
- 26% increase in Life Insurance completion volumes
- 10% increase in underlying Loan book, drawn value, to \$41b
- Maintenance of the Company's lending market share in excess of 4%.

We have undertaken a managed reduction in operating overheads. The business is now operating with a sustainable, scalable cost base. The current level of overheads support an infrastructure that provides scalability to meet future business growth under a more efficient operating cost framework.

In H1 FY2017, high margin, scale income declined slightly. Scale income includes high margin revenue from white label (Vow or YBR branded) loans. White label settlement penetration of the Vow and YBR networks was less than anticipated. In response, to gain greater control and flexibility of our white label value proposition, and increase penetration, we have created a centralised group lending function to consolidate the capabilities and offerings of recent business acquisitions, Resi (August 2014) and Loan Avenue (May 2016) under common management. Importantly this provides us with:

- The capability to source white label loans from a variety of funders on high margin and high profit share terms
- Added flexibility to funnel business between funders to enhance the attractiveness of the Company's branded products
- An experienced channel team to match the right loan applications with the right lenders, which will increase conversion rates

<b>Balance Sheet</b>	<b>Jun-16</b>	<b>Dec-16</b>	<b>%var</b>
	<b>\$'m</b>	<b>\$'m</b>	
Cash	6.85	5.96	(13%)
Goodwill (Acquired Businesses)	31.82	30.98	(3%)
Other Intangible Assets	3.93	4.14	5%
Prepaid Advertising	1.25	1.24	(0%)
Total Debt	(7.60)	(8.65)	14%
Loan Book embedded value	43.32	46.14	6%
Deferred tax	(2.42)	(2.31)	(4%)
Other	(5.49)	(5.12)	(7%)
<b>Net Assets</b>	<b>71.67</b>	<b>72.38</b>	<b>1%</b>
<b>Cash and undrawn facilities</b>	<b>10.55</b>	<b>8.01</b>	<b>(24%)</b>
Number of shares (m)	281	281	
Share price (\$)	0.19	0.17	
Market Capitalisation (\$m)	<b>53.43</b>	<b>47.81</b>	(11%)
Net Tangible Assets (\$m)	<b>35.9</b>	<b>37.3</b>	4%
Loan Book Embedded Value (\$m)	<b>43.3</b>	<b>46.1</b>	6%
Loan Book Embedded Value per share (\$)	0.154	0.164	

## Delivery on H1 FY2017 Key Focus Areas

In H2 FY2016 we identified three strategic operating priorities to drive efficiencies and increase shareholder value.

### 1. Train and Enable Branches to Improve Lending Productivity

#### Improve lead conversion

With the full rollout of our lead management application Ruby, every dollar spent on marketing and lead generation will generate higher conversion rates. Ruby's technology base also provides real-time lead flow monitoring which will allow us to improve the speed and efficiency of our service.

#### Recruit experienced YBR brokers

In the refreshed business direction, we have increased our focus on recruiting people with experience and business acumen to operate successful branches and leverage the brand, product and cross selling opportunities in a timely and productive manner. Our training resource are now applied to up-skilling and cross selling, not tied up teaching the basics of running a business.

To further enhance the productivity and effectiveness of our franchise operation we are adopting stricter performance guidelines. We have reviewed the productivity of all branches during the last six months and replaced a number of underperformers.

### **Invest in high potential branches**

Part of this refresh has also involved assessing the current network and our capacity to focus training resources on branches with unmet growth potential. While we are maintaining our recruitment strategy in the short-term net branch growth is expected to be nominal during the current financial year, accelerating next year toward our target of circa 300 YBR branches.

### **Vow network productivity**

As a consequence of senior staff changes during H1 FY2017, the business is better positioned to leverage growth opportunities in the extensive Vow Network (over 1,000 brokers). Over the next 12 months the recently appointed General Manager of Vow will be focusing on new wealth and lending product opportunities within the Vow network.

### **Branch self-service & automation**

YBR have invested in an integrated, self-service system that empowers the branch network to generate awareness and leads at a local level. The system uses marketing automation tools and requires less support, allowing the Adviser to select the most relevant, customisable campaigns for their area:

- Over 100 professional, high quality campaign templates to choose from and personalise - online, print, video scripts, blogs, social, email, eBooks and presentations
- Customisable email templates
- An enhanced Print Portal
- Customer data integration - to support email marketing and CRM, branches now have easy access to improved segmentation capabilities to cross-sell, up-sell, stay-in-touch and conduct full lifecycle customer management activities.

Results from early adopters have been positive with momentum expected to grow in 2017.

## **2. Drive Expansion of Proven Wealth Model**

### **Focusing capacity and productivity**

A streamlined product range has enabled us to focus training resources across fewer products to support branch and Advisor performance. It has also empowered our Advisers to be better informed on a selected number of products leading to productivity and conversion improvements.

### **Technology to drive efficiency and productivity**

Over the last six months YBR's Wealth CRM completed its pilot phase. When full implementation is achieved, in H2 FY2017 branches will be empowered to develop their own Statements of Advice (SoA) without the need for Head Office support or the cost and delays of external para-planning. Along with smart technology development and deployment, this initiative will reduce costs, improve processing time and improve the overall customer experience for simple Wealth SoAs.

### **Building underlying revenue generating assets**

During H1 FY2017 we started to see solid growth in underlying investment assets - generating stronger recurring revenue. Underlying FUM has increased by 28% and PUM by 20%. Our Smarter Money "Active Cash" and "Higher Income" cash management funds have also grown strongly and are now adding significant profit to the Company's bottom line.

### **3. Leveraging the Strong YBR Brand**

#### **Lead flow**

Lead flow is on target. The Company has adopted a back-to-basics strategy, supported by new technology to drive lead flow.

We have invested heavily in branch self-service and automation tools, including local area marketing templates and tools to allow branches to personalise and segment relevant messages to their client base, including full lifecycle customer management.

A core strategy remains to leverage Mark Bouris through media and industry appearances, customer and branch engagement, events, seminars, online content and other high profile opportunities.

#### **Referral network growth**

Early in H2 FY2017 we established a referral partnership with the Steadfast Group. This gives YBR franchisees access to over 1000 Steadfast general insurance brokers to develop a new source of lead opportunities. Steadfast lead flow is expected to commence in H2 FY2017.

#### **Brand**

Our most recent brand awareness research reaffirms YBR's strong ratings on key brand health metrics relative to our competitors. Ensuring we differentiate ourselves to other competitors and remain relevant to our target customers has been a key foundation to the Company's strategy.

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