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IOOF FY19 Financial Result

Resilience and agility in a changing environment

IOOF Holdings Limited (ASX: IFL; OTC: IOOFY) FY19 result overview

- Underlying NPAT (UNPAT) \$198.0 million, up 3.4%¹
- Statutory net profit after tax (NPAT) \$28.6 million, down 67.7%, inclusive of provision for financial advice remediation
- UNPAT from continuing operations up 5.2% to \$184.9 million
- Total funds under management, administration and advice (FUMA) \$149.5 billion, up 18.7% in the year to 30 June 2019
- Adviser net promotor score of +17%, compared to industry average of -30%
- Advice review undertaken - provision of \$182.7 million for remediation and program costs of \$40.4 million
- Fully franked final dividends of 19 cents per share

IOOF CEO, Renato Mota, said: “In one of the most challenging years for our company and for the industry, we have focused on the imperatives of stabilising the business, with a view to delivering better outcomes for our clients and our shareholders.

“In saying that, our earnings have been robust in a low-growth environment, with underlying net profit after tax (UNPAT) up 3.4% to \$198 million, compared to the prior year. Total funds under management, administration and advice (FUMA) increased by 19% to \$149.5 billion, as at 30 June 2019, with a \$16.1 billion contribution in FUMA from the ex ANZ Advice Licensees.

“The strength and diversity of our business saw us continue to attract flows in a challenging environment with our platforms gaining \$1.4 billion in net flows, in an environment where flows for the retail industry have contracted. We also attracted \$520 million in net inflows through the advice channel.

“Significantly, we have met all of the APRA licence conditions that were required by 30 June 2019.”

IOOF also announced that it had undertaken an external advice review and, as a result, had provisioned for \$182.7 million in remediation costs, inclusive of interest, as well as \$40.4 million in program costs. In addition, IOOF announced that it had expensed \$12.1 million in product remediation in FY19.

The Board declared total fully franked dividends for the half year of 19 cents per share, comprised of a final dividend of 12 cents per share and a special dividend of 7 cents per share. This takes into account the impact on NPAT of the provision for remediation and is reflective of the economic performance of the business. This takes the total fully franked dividend for the year to 44.5 cents. The total dividend payout ratio for the year is 79% and within the stated payout range of 60%-90%.

¹ All comparatives are to prior comparative period (pcp) of year ended 30 June 2018 unless otherwise stated

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Mr Mota commented, “The Board has taken a prudent view on capital management as we stabilise the business and begin our strategy of ‘transforming with purpose’ so we are future fit and in a position to take advantage of the market opportunities we see ahead.

“As an advice-led business offering choice to clients through open architecture, we believe we are well positioned to take advantage of market opportunities as industry disruption continues, the banks exit the industry, and as client and adviser needs evolve.”

Strategic priorities - transforming with purpose

Mr Mota said, “In taking over as CEO my strategy for IOOF is to “Stabilise, Transform and Prosper” and deliver advice-led wealth management for all Australians. While there is a lot of work to be done, I am pleased with the progress the company has achieved during the half, under very difficult circumstances.”

Stabilise

Commenting on the stabilisation of the business, Mr Mota said, “Improving our governance framework and practices and strengthening our relationships with stakeholders has been fundamental to us stabilising the business, accelerating the necessary change and restoring trust.

“Embedding risk management, reputation and governance in our daily decision-making enables us to translate regulatory and community expectations into decisive management actions that deliver the best outcomes for all IOOF stakeholders.”

Upon his appointment as CEO and Managing Director in June, Mr Mota announced that he would be undertaking a review of the senior management team to ensure IOOF had the cultural alignment and capabilities to meet its higher organisational ambitions and expectations.

Since then, Mr Mota has announced the appointment of a new Chief Risk Officer, Amanda Noble, with a redefined role reflecting a holistic approach to governance and risk management in support of the company’s commitment to stakeholders and the communities it serves.

The Board renewal process has seen the appointment of two new independent non-executive directors to IOOF Holdings Limited and an independent non-executive director to IOOF’s APRA regulated subsidiary Boards.

Mr Mota said, “Today I am delighted to announce the appointment of Melissa Walls as our new Chief People Officer. Melissa’s deep industry experience and people management acumen will greatly benefit the company and the executive management team as we accelerate the cultural change process.

Transforming with Purpose

In June IOOF announced the divestment of Ord Minnett for a sale price of \$115 million.

Mr Mota commented, “This was a timely opportunity to divest our holding in Ord Minnett as we transform our business and focus on our core wealth management business.

“We have completed the integration of the ANZ Advice Licensees into our business and are continuing to work towards completion of the ANZ P&I acquisition.”

An integral part of the transformation program will be through simplification of the business. This includes the creation of a single, flexible operating administration system and rationalising IOOF’s existing platform systems by the end of 2021. Simplification to a single platform is expected to create \$10 million in recurring annual cost savings after completion.



Mr Mota said, “We are building long-term scale benefits in our business and are committed to the reinvention of advice. ClientFirst remains a competitive advantage as we continue to deliver greater choice through open architecture, scale and diversity.”

Advice review

IOOF has conducted a comprehensive review of advice to clients.

The review included the development of key risk indicators, a sampling of advisers and an external review of over 1,200 files. The review found incidences of fees for no service, inadequate documentation and inappropriate advice. In response, IOOF has provisioned for \$182.7 million in remediation costs, inclusive of interest as well as \$40.4 million in program costs.

Mr Mota commented, “We are holding ourselves to the highest standards and where there is uncertainty or ambiguity we will remediate in favour of the client.”

Business highlights

Mr Mota said, “Business highlights for the year were our platform net inflows of \$1.4 billion; an adviser Net Promoter Score of +17% compares favorably to an industry score which was -30%, and the Investment Management division was awarded the top retail MySuper fund performance by Chant West.”

IOOF continued to see organic growth and attracted net flows of \$520 million through the financial advice segment. However, advice flows were impacted by third-party product repricing which has since been matched by an equivalent offer.

Mr Mota commented, “This demonstrates that our diversified model is catering to client need and driving sustainable growth of the business.”

Capital Management

IOOF is committed to rewarding shareholders and retaining flexibility through a prudent approach to capital management and reaffirmed its dividend payout ratio target of 60-90% of UNPAT.

The current environment has created a number of near-term capital and cash flow management considerations which require financial flexibility. These include payments related to remediation, supporting transformation in a changing environment, the divestment of Ord Minnett and the completion of ANZ P&I transaction.

IOOF will look to optimise the balance sheet once clarity is achieved on the ANZ P&I transaction. This could take the form of various capital management initiatives, including buy-back(s) and additional special dividend(s).

Outlook

Mr Mota commented, “The industry is in a state of flux. It is working towards restoring trust and there is strategic disruption. These things take time and hard choices need to be made to appropriately set the path for better outcomes.

“These considerations underpin IOOF’s strategy of ‘Stabilise, Transform, Prosper’. We see significant market opportunity in being advice-led. There is increasing need and demand for



quality financial advice; particularly in the context of increasing per capita wealth, an ageing population and Australia having one of the world's largest retirement income systems.

"While we have a lot of work ahead of us, we have made significant progress this year in stabilising the business and beginning our transformation with purpose. Against this backdrop, I see market and competitive opportunities for our business.

"The exit of banks from wealth management and the demand for simpler products and platforms that are more affordable and responsive to customer needs, plays to our strengths.

"We understand the challenges of our industry and the low growth environment. However, we are placing our confidence in the power of advice and the strength of our business.

"We continue to listen to our clients, members, advisers and the communities in which we operate, in order to always look to deliver better outcomes for the benefit of all our stakeholders."

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About IOOF Holdings Ltd

IOOF has been helping Australians secure their financial future since 1846. During that time, we have grown substantially to become one of the largest groups in the financial services industry.

IOOF provides advisers and their clients with the following services:

- **Financial Advice** services via our extensive network of financial advisers and stockbrokers.
- **Portfolio Management and Administration** for advisers, their clients and hundreds of employers in Australia.
- **Investment Management** products that are designed to suit any investor's needs.

Further information about IOOF can be found at www.ioof.com.au



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