

2020 ASX Small & Mid Cap Conference

9 September, 2020

Presented by
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Agenda

1. Industry Overview
2. Mortgage Choice Overview
3. Focus for FY21

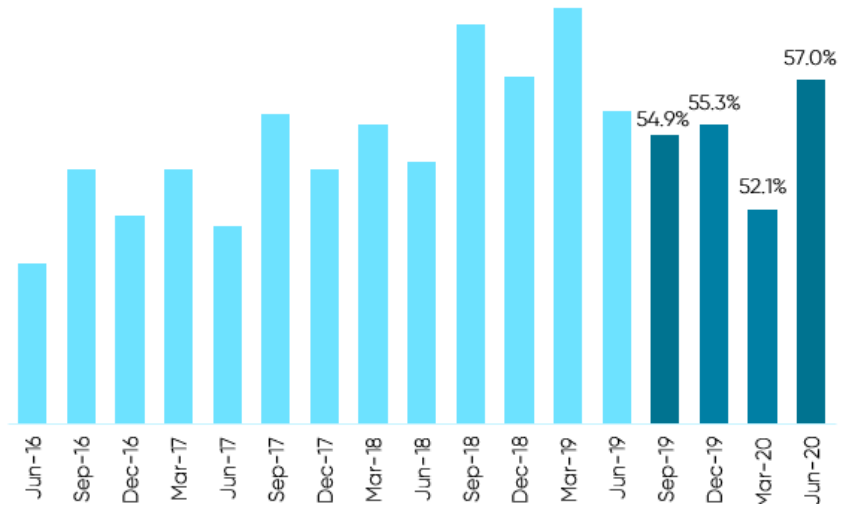


Industry Overview

Mortgage Broking – a strong client proposition

- Circa 17,000 mortgage brokers in Australia, with the majority spread across 14 main broking groups of which MOC is one.
- The mortgage broking value proposition centres on providing customers choice, expertise and convenience at no cost to them
- More than half of home loan customers choose to use a broker rather than go direct to a bank.
- Regulatory change continues with Best Interests Duty and Conflicted Remuneration reform preparation underway. Both regulatory changes are outcomes from the Royal Commission and come into effect 1 January 2021.

Broker usage, MFAA (%)

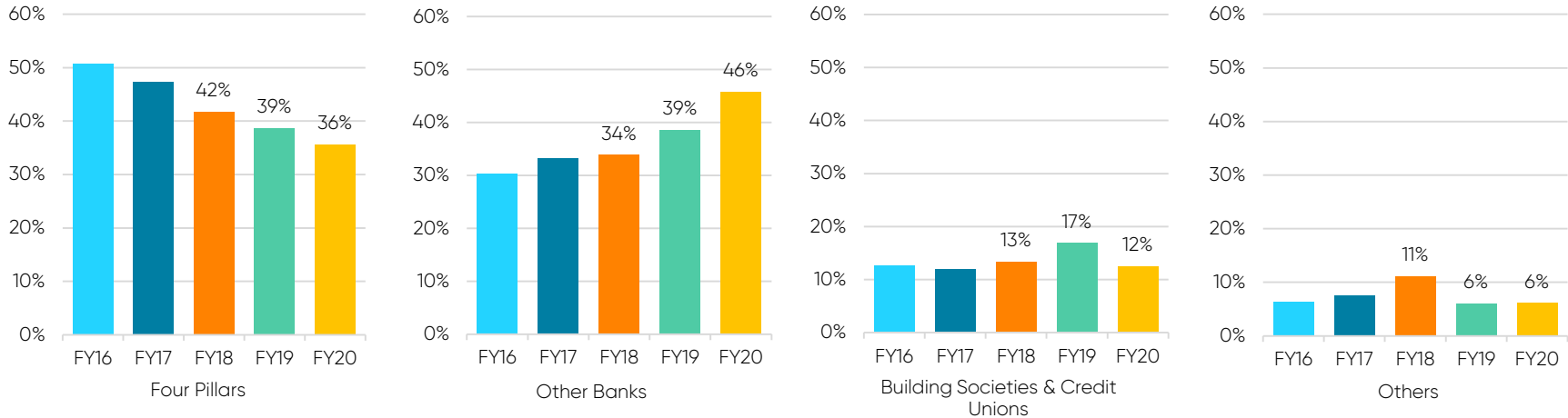


Settlements continue to shift from four pillars

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 50%.

Mortgage Choice Residential Settlements by Lender (%)



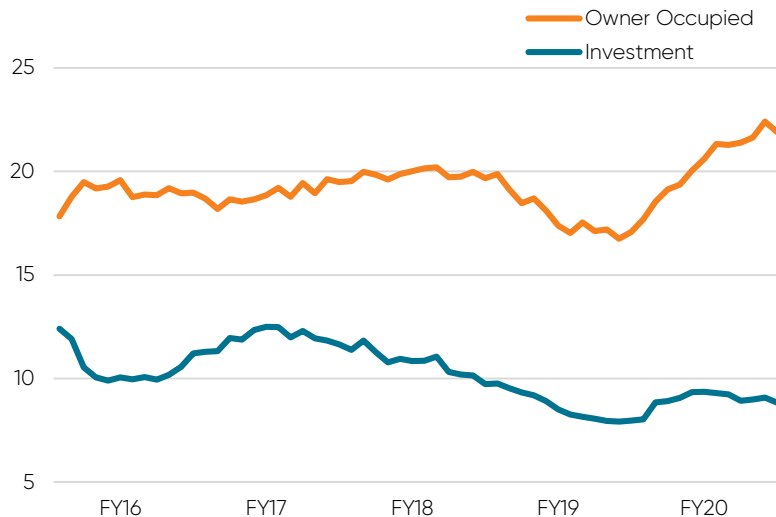
Four Pillars includes primary brands CBA, ANZ, NAB and Westpac.

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

Home Loan Market is weathering COVID-19, for now

Approvals averaged \$29.4b per month in FY20, up 11.1% on FY19 (\$26.5b).

Housing Finance Approvals, ABS (\$b)



Source: ABS 5601 Table 3 and Table 13 June 2020 (Seasonally adjusted series)

- Unprecedented government stimulus for housing driving strong market activity (FHLDS, Home Builder, FHB grants, stamp duty concessions); Mortgage Choice saw customer activity and enquiry levels remain strong in the last quarter with settlements up 18% on FY19.
- Banks continuing operations during COVID-19. New technologies introduced for customer engagement and identification, signing documents, completing valuations enabling broker proposition to sustain and customer servicing to continue
- Lenders continue to pay trail on loans where customers have entered into repayment arrangements as a result of COVID-19.
- Mortgage Choice quickly adapted to the change in environment with franchisees and staff working remotely. Ensured the Company and franchisees remained open through periods of shutdown, including the stage four restrictions experienced in Victoria. No government stimulus (JobKeeper) received.



Mortgage Choice Overview

About Mortgage Choice

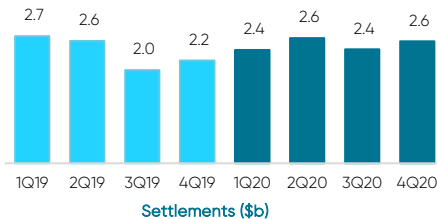
- Established 1992, company listed on ASX in 2004
- Established financial planning division in 2012, rebranded to FinChoice in 2020
- National distribution footprint
- Established consumer brand
- White label product offering



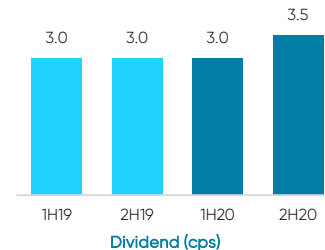
554 Credit Reps & 38 Advisers



Loan book at \$54.0b
FUA \$1.1b
Premium In Force \$31.8m



Settlements of \$10.0b



Increased dividend,
fully franked

Profit & loss statement

	FY20 Cash [^]	FY19 Cash [^]	Change	FY20 IFRS	FY19 IFRS	Change
	\$m	\$m	%	\$m	\$m	%
Origination commission received	61.5	57.9	6%	61.5	57.9	6%
Trailing commission received	99.3	99.8	(1%)	97.1	100.3	(3%)
Total commission received	160.7	157.7	2%	158.6	158.2	0%
Origination commission paid	47.7	44.4	7%	47.7	44.4	7%
Trailing commission paid	71.4	71.1	0%	71.2	71.3	(0%)
Total commission paid	119.1	115.5	3%	118.9	115.7	3%
Net core commission	41.6	42.2	(1%)	39.6	42.5	(7%)
Diversified products net revenue	1.1	1.3	(11%)	1.1	1.2	(10%)
Financial Planning net revenue	1.9	1.9	3%	1.6	1.8	(7%)
Other income	3.7	4.0	(8%)	3.7	4.0	(8%)
Gross profit	48.4	49.4	(2%)	46.1	49.5	(7%)
Operating expenses	31.8	29.2	9%	31.8	29.2	9%
Share based remuneration				0.7	0.4	63%
Net profit before tax	16.6	20.2	(18%)	13.6	19.9	(32%)
Net profit after tax	11.7	14.0	(16%)	9.4	13.7	(31%)
EPS (cps)	9.4c	11.2c	(16%)	7.5c	11.0c	(32%)
DPS (cps) – Full year	6.5c	6.0c	8%	6.5c	6.0c	8%

- FY20 cash results reflects a full 12 months of changed broker remuneration model and FinChoice remuneration model compared to 11 and 9 months in FY19.
- The average payout ratio of 74.1% (upfront 77.6%, trail 71.9%) 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 \$1.0m in FY20 is \$30.8m. Allowing for the non payment of STI in FY19 of \$1.2m underlying expenses are up 2%.

[^] 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.

Operating cash flow

	FY20 \$'000	FY19 \$'000
EBITDA (cash basis)	18,995	21,793
Net interest income	424	545
Depreciation and amortisation	(2,811)	(2,143)
Net Profit Before Tax (cash basis)	16,608	20,195
Depreciation and amortisation – other	2,811	2,143
Tax paid	(5,401)	(5,064)
Purchase of fixed assets and intangibles	(3,253)	(3,755)
Loans to franchisees, net of repayments	1,130	150
One-off loan book purchases as part of model restructure	(690)	(2,122)
Other balance sheet movements*	2,976	(473)
Cash flow before borrowings and dividends	14,181	11,074
External borrowings, net of repayments	(2,500)	2,500
Dividends paid	(7,500)	(15,000)
Net cash movement	4,181	(1,426)

- EBITDA cash generation remains strong.
- Depreciation and amortisation expense reflects broker platforms and efficiency tools coming online.
- IT investment expected to continue at a similar level in FY21.
- External borrowing repaid in full in period.
- Final dividend of 3.5 cents, bringing full year dividend to 6.5 cents (fully franked), payout ratio of 69%.

*Includes prepayments, other payables and receivables.



Focus for FY21

Strategic Objectives

FY21 Initiatives



Growth of our revenue base through recruitment, regeneration and retention of franchise talent



Accelerated investment in an enhanced and digitally-driven customer experience



Delivery of systems and processes that create digitally efficient broker and adviser businesses

Achievements and progress in FY20

Business outcomes

- Settlements up 20% in H2 of FY20 with a positive return to recruitment after Federal Election.
- Achieved record lead numbers in the H2 of FY20.
- Restructured the business for long-term success and strengthened the leadership team.
- Continued to invest in technology to increase broker and adviser productivity; integrate digitally connected customers and establish a big data cloud platform.
- Launched 'Mortgage Choice Home Loans - Ignite' white label product in February 2020 supported by Pepper Money.

Best Interests Duty Compliance

- Developing industry-leading software enhancements to our proprietary Broker Platform to ensure we achieve full compliance of Best Interests Duty in preparation for 1 January 2021.
- Focus on the efficient compliance of our franchise network and delivering best practice customer service in parallel.

Summary



Resilient result in an uncertain economic environment with the challenges of COVID-19 being well managed.



Focused on building franchise and broker footprint to drive future growth.



Building out the digital customer experience supported by efficient and digitally enabled franchises to further support settlement growth.



Broker platform enhancements to ensure compliance with Best Interest Duty obligations well ahead of ASIC mandated 1 January 2021 deadline.



Strong underlying cash flows and debt-free balance sheet.



Well positioned to grow settlements and pursue other revenue.

Thank you.