

# FY2018 Financial Result

ASX Release – 27 August 2018

## Netwealth Pro Forma NPAT of \$29.0 million, 6.3% ahead of prospectus forecast

Following the successful ASX listing on the 20 November 2017, Netwealth Group Limited (ASX: NWL) today announced its first full year results reflecting continued strong growth of Funds Under Administration (FUA) and profitability.

### Pro Forma Financial Results Overview<sup>1</sup>

- Pro forma NPAT<sup>1</sup> of \$29.0 million was an increase of \$12.2 million (72.7%) on FY2017 and \$1.7 million (6.3%) ahead of prospectus forecast.
- Statutory NPAT of \$20.8 million included IPO transaction costs of \$8.7 million (net of tax).
- EBITDA<sup>1</sup> for FY2018 was \$42.3 million, an increase of \$17.4 million (69.7%) on FY2017. EBITDA<sup>1</sup> for FY2018 was also \$2.4 million ahead of the prospectus forecast of \$39.9 million.
- Platform revenue for FY2018 was \$81.5 million and total income<sup>1</sup> for FY2018 was \$83.3 million. Total income growth of \$22.0 million (35.9%) was primarily driven by growth in FUA and improved margins on ancillary revenues.
- We continue to focus on efficient cost management. In FY2018 total operating expenses increased by \$4.6 million (12.8%) to \$41.0 million. EBITDA<sup>1</sup> margin improved to 50.8% for FY2018 compared to 40.7% in FY2017.
- Operating Cashflow (pre-tax)<sup>1</sup> was \$39.4 million for FY2018. This increased by \$14.5 million (58.4%) over the previous year. The cash conversion ratio was 93.1% for FY2018.
- On the 27 August 2018 the board declared a fully franked final dividend for FY2018 of 5.38 cents per share, which represents 70% of NPAT<sup>1</sup> since the IPO. In addition, a special dividend of 5.18 cents per share was also declared. The final and special dividends are payable on 27 September 2018.

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<sup>1</sup> All numbers are pro forma, unless labelled otherwise. A reconciliation from Statutory EBITDA to pro forma EBITDA and Statutory NPAT to pro forma NPAT is included in Appendix A. Pro forma EBITDA, NPAT and Operating Cashflow have all been prepared consistently with the IPO Prospectus, adjusted to exclude the impact of the IPO transactions costs and the company's discontinued operations.

Pro forma Financials	FY2018 Actual	FY2017 Actual	Change	% Change	FY2018 Prospectus	Variance	% Variance
Platform Revenue	81.5	60.6	20.8	34.3%	80.2	1.2	1.5%
Other Income	1.8	0.6	1.2	193.2%	1.3	0.5	36.1%
<b>Total Income</b>	<b>83.3</b>	<b>61.3</b>	<b>22.0</b>	<b>35.9%</b>	<b>81.6</b>	<b>1.7</b>	<b>2.1%</b>
Employee Benefits Expenses	(28.7)	(24.8)	3.9	15.9%	(27.8)	0.9	3.4%
Other Costs & Expenses	(12.2)	(11.5)	0.7	6.1%	(13.8)	(1.6)	(11.5%)
<b>Total Operating Expenses</b>	<b>(41.0)</b>	<b>(36.3)</b>	<b>4.6</b>	<b>12.8%</b>	<b>(41.6)</b>	<b>(0.6)</b>	<b>1.5%</b>
<b>EBITDA</b>	<b>42.3</b>	<b>24.9</b>	<b>17.4</b>	<b>69.7%</b>	<b>39.9</b>	<b>2.4</b>	<b>5.9%</b>
EBITDA Margin	50.8%	40.7%	10.1%		49.0%	1.8%	
<b>NPAT</b>	<b>29.0</b>	<b>16.8</b>	<b>12.2</b>	<b>72.7%</b>	<b>27.3</b>	<b>1.7</b>	<b>6.3%</b>
NPAT margin	34.9%	27.5%	7.4%		33.5%	1.4%	
<b>Operating net cash flow pre tax</b>	<b>39.4</b>	<b>24.9</b>	<b>14.5</b>	<b>58.4%</b>	<b>38.7</b>	<b>0.7</b>	<b>1.9%</b>
Cash conversion ratio to EBITDA	93.1%	99.7%	(6.6%)		96.8%	(3.7%)	
<b>Platform Statistics</b>							
<b>Funds Under Administration</b>							
FUA (eop)	17,960	12,747	5,213	40.9%	15,247	2,713	17.8%
FUA net inflows	4,166	3,880	286	7.4%	2,500	1,666	66.6%
<b>Funds Under Management</b>							
Managed Account	1,834	679	1,155	170.2%	1,300	534	41.1%
Managed Funds	1,011	884	127	14.4%	1,173	(162)	(13.8%)
<b>FUM (eop)</b>	<b>2,846</b>	<b>1,563</b>	<b>1,283</b>	<b>82.1%</b>	<b>2,473</b>	<b>373</b>	<b>15.1%</b>
Managed Accounts net inflows	871	534	337	63.2%	700	171	24.5%
Managed Funds net inflows	112	23	89	385.2%	210	(98)	(46.9%)
<b>FUM net inflows</b>	<b>983</b>	<b>557</b>	<b>426</b>	<b>76.5%</b>	<b>910</b>	<b>73</b>	<b>8.0%</b>
<b>Key Statistics</b>							
Platform Revenue / average FUA (bps)	53.4	60.9	(7.5)	(12.3%)	57.3	(3.9)	(6.8%)
Platform Revenue / average number of accounts (\$)	1,405	1,288	117	9.1%	1,404	1	0.1%

\$M unless otherwise stated and prepared on a pro forma basis consistent with the prospectus  
eop - end of period

## Company Highlights

- Netwealth achieved the highest platform flows in our industry for the 12 months to 31 March 2018, obtaining 22.1% (\$4.6 billion) of total net flows, being 11 times our market share (latest industry market data). Netwealth has doubled its market share from 1.0% (\$6.6 billion) in March 2015 to 2.0% (\$16.0 billion) in March 2018. Netwealth is Australia's largest specialist platform provider and in the top 10 overall platform providers in Australia<sup>2</sup>.
- FUA increased \$5.2 billion (40.9%) to end the FY2018 year at \$17.96 billion.
- The Netwealth Managed Account delivered strong growth in FY2018 growing to \$1.8 billion, an increase of \$1.2 billion (170.2%) over the year.
- FUA net inflows for FY2018 were \$4.2 billion. FUA net inflows increased by \$0.3 billion (7.4%) over the previous year and increased by \$1.1 billion (34.5%) when a one-off client transition is excluded from FY2017 net inflows.
- Total income for the year increased by 35.9% while expenses increased by only 12.8%, highlighting the benefits of effective cost management and increasing scale. The pro forma

<sup>2</sup> Source: Strategic Insight: Master Trusts, Platforms & Wraps (Mar 2018)

EBITDA margin accordingly increased to 50.8%. Netwealth continued its practice of expensing all of its IT development costs.

- The revenue per account continued to increase in FY2018 from \$1,288 to \$1,405.
- The pooled cash account represented 8.65% of FUA at 30 June 2018.
- Netwealth has been ranked No. 1 for overall full functionality for 3 successive years and No. 1 platform for overall satisfaction for 7 years running<sup>3</sup>.
- Commenting on the results Michael Heine, Joint Managing Director of Netwealth said:

*"We are pleased with our first full year results which reflect a strategy focused on being the leading platform provider for advisers and clients.*

*We achieved the highest industry net flows for the 12 months to March 2018 being 22% of flows and 11 times our market share of 2%. We are experiencing significant structural changes in the wealth management industry in Australia. Many of these changes are benefiting Netwealth and will continue to accelerate as many institutions review their wealth management businesses and advisers demand greater flexibility in their choice of platform.*

*Netwealth continues to be very focused on ensuring ongoing leadership in platform technology and functionality and the delivery of market leading administration and customer service."*

## Outlook

- The wealth management industry in Australia is experiencing significant structural changes. Many of these changes are benefiting Netwealth and will continue to accelerate as many institutions review their wealth management businesses and advisers demand greater flexibility in their choice of platform.
- Netwealth's key focus is ensuring ongoing leadership in platform technology and functionality and the delivery of outstanding administration and customer service.
- Netwealth expect our FY2019 net inflows to increase from FY2018 levels.
- Netwealth will continue to innovate and increase our investment in technology, sales, marketing and client service, to capitalise on the current market opportunity.
- We will continue to focus on the average revenue earned per account and developing new revenue streams. Average basis points earned on FUA are expected to continue to decrease over time, reflecting the changing mix of new business and some competitive pricing pressure.
- Growth of NPAT will be driven from growth of FUA, disciplined pricing, efficient cost management and seeking new sources of incremental revenue.

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<sup>3</sup> *Investment Trends; December 2017 Platform Competitive Analysis and Benchmarking Report & Investment Trends, May 2018 Planner technology report*

- We expect a continuation of pricing competition. Netwealth's superior service and platform functionality, combined with our competitive pricing, places us in a very strong position to compete and succeed.
- We expect the ongoing benefits of scale, continued improvements to operational processes and automated technology, will offset any pricing compression and re-investment costs, with our EBITDA margin % in 2019, expected to remain at a similar level to 2018.
- Heine Shareholders<sup>4</sup> have confirmed no current intention to sell any of their holdings.

## Corporate Structure

- During the year we divested the operations of the advice-related business of Bridgeport Financial Services Pty Ltd and the financial planning software support and professional development business of Pathway Licensee Services Pty Ltd.

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## About Netwealth

Netwealth is a financial services company listed on the Australian Stock Exchange (ASX: NWL).

Netwealth was founded in 1999 and established to provide astute investors and wealth professionals with a better way to invest, protect and manage their current and future wealth. As a business, Netwealth seeks to enable, educate and inspire Australians to see wealth differently and to discover a brighter future.

Netwealth offers a range of innovative portfolio administration, superannuation, retirement, investment and managed account solutions to investors and financial intermediaries including financial advisers, private client and high net worth firms.

Netwealth's award-winning platform is currently rated Australia's Number 1 Platform for overall functionality and overall satisfaction<sup>5</sup> providing wealth professionals with the technology required to efficiently manage and add value to their clients.

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<sup>4</sup> Heine Shareholders: Michael Heine, Matt Heine and Leslie Max Heine and the entities controlled by one or more of them.

<sup>5</sup> Investment Trends; December 2017 Platform Competitive Analysis and Benchmarking Report & Investment Trends, May 2018 Planner technology report

## Appendix A

Reconciliation of Statutory results to pro forma		FY2018 Actual	FY2017 Actual	Change	% Change	FY2018 Prospectus	Variance	% Variance
<b>Statutory EBITDA on continuing operations</b>		<b>29.9</b>	<b>24.2</b>	<b>5.7</b>	<b>23.4%</b>	<b>27.8</b>	<b>2.0</b>	<b>7.3%</b>
IPO transaction costs	1	12.4	0.2	12.2	5119.7%	12.1	0.3	2.5%
Listing Cost		-	(0.5)	0.5	100.0%	-	-	-
Discontinued operations indemnity		-	1.0	(1.0)	(100.0%)	-	-	-
<b>Pro forma EBITDA</b>		<b>42.3</b>	<b>24.9</b>	<b>17.4</b>	<b>69.7%</b>	<b>39.9</b>	<b>2.4</b>	<b>5.9%</b>
<b>Pro forma EBITDA margin</b>		<b>50.8%</b>	<b>40.7%</b>	<b>10.1%</b>	<b>-</b>	<b>49.0%</b>	<b>1.8%</b>	<b>-</b>
<b>Statutory NPAT</b>		<b>20.8</b>	<b>13.6</b>	<b>7.2</b>	<b>53.6%</b>	<b>19.8</b>	<b>1.1</b>	<b>5.3%</b>
Profit for the year from discontinued operations	2	(1.2)	2.8	(4.0)	(143.3%)	(1.4)	0.2	(15.1%)
IPO transaction costs	1	12.4	0.2	12.2	5119.7%	12.1	0.3	2.5%
Listing Cost		-	(0.5)	0.5	100.0%	-	-	-
Discontinued operations indemnity		-	1.0	(1.0)	(100.0%)	-	-	-
Tax impact from IPO transaction costs & listing cost	3	(3.7)	0.1	(3.8)	(4487.1%)	(3.6)	(0.1)	2.6%
Tax impact from discontinued operation indemnity		-	(0.3)	0.3	100.0%	-	-	-
Tax impact from Group Tax Consolidation	4	0.7	-	0.7	100.0%	0.5	0.2	50.2%
<b>Pro forma NPAT</b>		<b>29.0</b>	<b>16.8</b>	<b>12.2</b>	<b>72.7%</b>	<b>27.3</b>	<b>1.7</b>	<b>6.3%</b>
<b>Pro forma NPAT margin</b>		<b>34.9%</b>	<b>27.5%</b>	<b>7.4%</b>	<b>-</b>	<b>33.5%</b>	<b>1.4%</b>	<b>-</b>

\$'M unless otherwise stated

1. Removal of costs relating to listing on the ASX in November 2017.
2. Profit for discontinued operations for the period to date of divestment.
3. Tax impact on the costs relating to IPO.
4. The impacts from the election to form a tax consolidation group, following restructure relating to IPO.