

AFG announces \$60 million equity raising to strengthen capital position and support future growth

Key Highlights

- ▶ Australian Finance Group Ltd (“AFG” or the “Company”) (ASX: AFG) is raising \$60 million (“Equity Raising”) to strengthen its capital position, support future growth of AFG Securities and other ongoing growth initiatives
- ▶ Fully Underwritten Equity Raising to be conducted at an offer price of A\$1.15 via a \$45 million 1 for 5.5 pro rata accelerated non-renounceable entitlement offer (“Entitlement Offer”) and a \$15 million institutional placement (“Placement”)
- ▶ Certain AFG Directors and Management have committed to subscribe for \$5 million of the Equity Raising and to sub underwrite up to \$690,000 of the Retail Entitlement Offer
- ▶ AFG Securities has recently extended the period of its two key originating warehouse facilities and has \$546 million of undrawn funding capacity
- ▶ Operating results to April have been strong, however COVID-19 is expected to create some economic uncertainty moving forward and to have an adverse impact on lodgements and settlements into 1H FY21
- ▶ Access to wholesale funding markets and funding terms have been impacted by COVID-19 uncertainty, which is expected to result in additional capital requirements to support and grow the AFG Securities Pty Ltd (“AFG Securities”) business where AFG wants to remain a long term committed market participant
- ▶ Following completion of the Equity Raising, AFG will continue to have a conservative balance sheet with no corporate debt and proforma unrestricted cash and cash equivalents of \$112 million post completion of the Equity Raise (pre offer costs)

Trading Update & COVID-19 Outlook

AFG has today announced a \$60 million equity raising to strengthen our capital position and support future growth. As announced to the ASX on 5 May 2020, AFG has experienced strong growth in lodgements, with the March quarter up 33% on the same period last year. This trend has continued into April, although the settlement conversion ratio remains uncertain but is expected to be lower, with settlements subject to delays given the impact of operating in the COVID-19 environment. The increased activity in the March quarter and month of April was largely driven by record low interest rates, and more recently refinancing activity as brokers helped borrowers shore up their positions against the impacts of COVID-19 ahead of potential shutdowns.

AFG expects residential settlements to fall in upcoming months, from April’s strong level of activity. This is expected to be driven by a slowdown in broader economic activity, higher levels of unemployment and a potential decrease in house price and sale volumes caused by the COVID-19 pandemic.

As a result of this confluence of factors, AFG is anticipating settlement volumes and therefore upfront commission payments to soften in the coming months. Importantly, operating cash flow from existing trail commission arrangements on AFG’s \$151.7 billion trail book originated by AFG mortgage brokers¹ is expected to continue. Additionally, the majority of lenders have confirmed they will continue to honour trail commission payments on COVID-19 hardship cases for six months.

¹ As at 31 December 2019.

AFG Securities' existing loan book of \$2.85 billion² is expected to continue to deliver strong net interest income, although loan book growth is likely to slow over the next 12 months. AFG has recently extended its two key originating warehouse facilities and is expecting an approximately 15 bps increase in the cost of funding. AFG is anticipating it will require additional capital for AFG Securities to strengthen its strategic and competitive position, provide additional liquidity, support additional growth in facilities and provide support for potential impacts of ongoing hardship cases to assist customers through the COVID-19 pandemic. AFG currently has a collective provision of approximately \$1.2 million for losses, which is expected to increase for the FY2020 results. All loans that have a loan to value ratio greater than 80% are covered by Lenders Mortgage Insurance ("LMI"). To date AFG Securities has not incurred any losses on non-LMI insured loans. The general consensus market outlook is for property price declines of between 5% and 15%. If this assumption holds, AFG does not expect losses to be material.

While the economic and residential property outlook remains uncertain, AFG is confident that the role of brokers who deliver choice and competition to Australian borrowers will remain critically important.

Equity Raising Overview

AFG has today announced a fully underwritten \$60 million Equity Raising to be conducted via a \$45 million 1 for 5.5 pro rata accelerated non-renounceable entitlement offer and a \$15 million placement to institutional investors.

The Equity Raising will be conducted at a fixed offer price of A\$1.15 per share ("Offer Price"), representing:

- ▶ A 14.4% discount to the Theoretical Ex Rights Price³ (TERP) of A\$1.34; and
- ▶ A 17.3% discount to the closing price of AFG shares on the ASX on Tuesday, 12 May 2020.

The Equity Raising will result in the issuing of approximately 52 million New Shares representing approximately 24% of existing AFG shares on issue.

Certain AFG Directors and Management have committed to subscribe for approximately \$5 million of the Offer and to sub underwrite up to \$690,000 of the Retail Entitlement Offer. Macquarie Capital (Australia) Limited is lead manager and underwriter to the Equity Raising. Euroz Securities Limited and Morgans Corporate Limited are Co-managers to the Equity Raising.

New shares issued under the Equity Raising will rank equally with existing AFG shares as at their date of issue. Eligible shareholders who do not take up their entitlement under the Entitlement Offer in full or in part will not receive any value in respect of those entitlements not taken up.

The Entitlement Offer is non-renounceable, and rights are not transferrable and will not be traded on the ASX or otherwise.

² As at 30 April 2020.

³ Theoretical ex-rights price ("TERP") includes shares issued under the Placement, Institutional Entitlement Offer and the Retail Entitlement Offer. TERP is the theoretical price at which AFG shares should trade after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which AFG shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the last traded price on Tuesday, 12 May 2020, being A\$1.39.

Use of Proceeds

Proceeds from the Equity Raising will be deployed across the business over the short to medium term and be used to strengthen the capital position, provide liquidity, and support growth in the AFG Securities lending book along with other ongoing growth initiatives. These proceeds will supplement AFG's existing unrestricted cash of \$52 million as at 30 April 2020 which is predominantly required for working capital purposes:

- ▶ Up to \$45 million - \$55 million of the proceeds are being set aside to strengthen the capital position, provide liquidity, and support growth in the AFG Securities lending book.
- ▶ AFG will also apply \$5 million towards accelerating its ongoing technology investment to support brokers to better engage with their clients in the current COVID-19 environment.
- ▶ AFG also expects the current environment could create market opportunities. The Company may also apply up to \$10 million for investment opportunities that AFG might choose to pursue.

Capital Management and Funding Position

Following the Equity Raising, AFG will have pro-forma unrestricted cash and cash equivalents of \$112 million post completion of the Equity Raise (pre offer costs). In addition, AFG's corporate balance sheet is debt free once adjusting for its non-recourse funding special purpose vehicles providing a robust platform for the future.

AFG has recently extended AFG Securities' key warehouse funding facilities to December 2020 and May 2021, with \$546 million headroom available in the facilities. As part of the extension, funding costs are expected to increase by approximately 15 bps, driven by a combination of funding margin increases and higher undrawn facility capacity which attracts additional line fees.

AFG Chief Executive Officer David Bailey commented: *"AFG is taking action to reinforce its balance sheet to enable the Company to navigate current market uncertainties from a position of strength and ensure we remain well positioned for continued growth."*

"Our diversification strategy has been in place for a number of years, and the growth in AFG Securities has been a key pillar of that strategy. We are undertaking this equity raising to further strengthen our capital position in AFG Securities to remain a long term market participant and support its growth beyond COVID-19. AFG Securities is committed to continuing to play its part in delivering choice and competition to Australian borrowers."

"Additional capital will also allow the company to continue to explore strategic opportunities to further diversify earnings. We expect the COVID-19 pandemic will change the way people do business in the short to medium term, if not permanently. Equity raised will assist AFG to ensure our brokers are at the forefront of technology to support their customers, make their workflows more efficient and accelerate the enhancement of our digital platform to drive competition in the lending market."

"We are taking a longer-term view and the equity raise will ensure AFG is well placed and well capitalised to maintain the momentum behind our business during this period of market disruption."

Placement

In accordance with ASX Listing Rule 7.1, the Placement is being undertaken within AFG's placement capacity and accordingly, no shareholder approval is required in connection with the Placement. New Shares issued under the Placement do not have rights to participate in the Entitlement Offer.

Institutional Entitlement Offer

Eligible institutional and sophisticated shareholders will be invited to participate in the Institutional Entitlement Offer.

Under the Institutional Entitlement Offer, eligible institutional and sophisticated shareholders can choose to take up all, part, or none of their Entitlement. Entitlements not taken up under the Institutional Entitlement Offer will be offered to eligible institutional and sophisticated investors at the Offer Price.

Retail Entitlement Offer

Eligible retail shareholders with a registered address in Australia or New Zealand on the Record Date of 7.00pm (Sydney time), Friday, 15 May 2020, will have the opportunity to invest in New Shares at the Offer Price, on the terms and conditions outlined in the Retail Offer Booklet to be sent to eligible retail shareholders on Wednesday, 20 May 2020.

Please note that shareholders with a registered address outside of Australia or New Zealand on the Record Date are ineligible to participate in the Retail Entitlement Offer. Further details as to eligibility will be set out in the Retail Offer Booklet.

For further information in regard to the Retail Entitlement Offer, please do not hesitate to contact the Offer Information Line on 1300 658 099 (local call cost within Australia) or +61 1300 658 099 (from outside Australia) at any time between 8.30am and 5.30pm (Sydney time), Monday to Friday during the retail offer period.

Equity Raising Timetable

Event	Indicative date
Equity Raising announcement and Placement and Institutional Entitlement Offer opens	Wednesday, 13 May 2020
Placement and Institutional Entitlement Offer closes	Wednesday, 13 May 2020
Trading in AFG shares resumes on an ex-entitlement basis	Thursday, 14 May 2020
Record date for determining entitlement for the Entitlement Offer	Friday, 15 May 2020
Despatch of Retail Offer Booklet and Retail Entitlement Offer opens	Wednesday, 20 May 2020
Settlement of Placement and Institutional Entitlement Offer	Friday, 22 May 2020
Allotment and normal trading of New Shares issued under the Placement and Institutional Entitlement Offer	Monday, 25 May 2020
Retail Entitlement Offer closing date	Tuesday, 2 June 2020
Settlement of Retail Entitlement Offer	Tuesday, 9 June 2020
Allotment of New Shares issued under the Retail Entitlement Offer	Wednesday, 10 June 2020
Normal trading of New Shares issued under the Retail Entitlement Offer	Thursday, 11 June 2020
Despatch of holding statements	Friday, 12 June 2020

The timetable is indicative only and subject to change, AFG reserves the right to alter the above dates at its full discretion and without prior notice, subject to the ASX Listing Rules and the *Corporations Act 2001* (Cth).

-ends-

For further information:

Alison Clarke
 Head of Corporate Communications
 Australian Finance Group Ltd
alison.clarke@afgonline.com.au
 Mob: +61(0) 402781 367

FORWARD LOOKING STATEMENTS

This announcement contains certain "forward-looking statements". The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks and certainties and other factors which are beyond the control of AFG, its directors and management. This includes statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from those expressed or implied in such statements and any projections and assumption on which these statements are based. These statements may assume the success of AFG's business strategies. The success of any of those strategies will be realised in the period for which the forward-looking statement may have been prepared or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19, and except as required by law or regulation, none of AFG, its representatives or advisers assumes any obligation to update these forward-looking statements. No representation or warranty, express or implied, is made as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns or statements in relation to future matters contained in this announcement. The forward looking statements are based on information available to AFG as at the date of this announcement. Except as required by law or regulation (including the ASX Listing Rules), none of AFG, its representatives or advisers undertakes any obligation to provide any additional or updated information whether as a result of a change in expectations or assumptions, new information, future events, or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements.

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

This announcement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or any other jurisdiction in which such an offer would be illegal. The securities referred to in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933 (the **US Securities Act**), as amended, or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold, directly or indirectly, in the United States unless the securities have been registered under the US Securities Act (which AFG has no obligation to do or procure) or are offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable U.S. state securities laws. This Presentation may not be distributed or released in the United States.

The release of this announcement was authorised by AFG's Board of Directors.



Lisa Bevan
Company Secretary