

# FY2021 Financial result

ASX Release – 18 August 2021

## Netwealth delivers NPAT growth of 23.9%

Netwealth Group Limited (Netwealth, ASX; NWL), is pleased to announce its full year results for FY2021.

### FY2021 Financial results highlights (PCP<sup>1</sup>)

- EBITDA of \$79.3 million (\$66.2 million), increase of 19.9% for the year.
- EBITDA margin of 54.8% (53.4%) for the year.
- NPAT of \$54.1 million (\$43.7 million), \$10.4 million increase or 23.9% increase for the year.
- Total Income of \$144.9 million (\$123.9 million) an increase of \$21.0 million (16.9%).
- Platform Revenue of \$142.0 million (\$121.3 million), an increase of \$20.6 million (17.0%).
- Total Operating Expenses of \$65.5 million (\$57.8 million), an increase of \$7.8 million (13.5%) reflecting previously announced strategic investments across IT infrastructure, people and software to support ongoing growth and market leading position. Savings achieved in marketing, travel, and premises relate to COVID-19 impacts.
- Headcount (HC) increased by 63, during the year, to 402 at 30 June 2021, including an additional 43 resources in the technology team.
- Underlying Operating Net Cash Flow Pre-Tax<sup>2</sup> of \$75.5 million (\$64.5 million), 98.1% cash conversion from EBITDA.
- Fully Diluted EPS<sup>3</sup> of 22.1 cents (17.8 cents), an increase of 4.3 cents (24.1%) for the year.
- On 18 August 2021 the board of directors (the “Board”) declared a fully franked final dividend of 9.5 cents per share totalling \$23.2 million. The total FY2021 dividend represented 18.56 cents per share and an increase of 26.3% on FY2020. The final dividend is payable on 24 September 2021. The ex-dividend date is 26 August 2021.

### FY2021 Business highlights

Financials	FY2020 Actual	FY2021 Actual	Change 20 V 21	% Change 20 V 21	1H 2021 Actual	2H 2021 Actual	Change 1H V 2H	% Change 1H V 2H
Platform Revenue	121.3	142.0	20.6	17.0%	71.2	70.8	(0.3)	(0.5%)
Other Income	2.6	2.9	0.3	13.0%	1.2	1.7	0.5	37.4%
<b>Total Income</b>	<b>123.9</b>	<b>144.9</b>	<b>21.0</b>	<b>16.9%</b>	<b>72.3</b>	<b>72.5</b>	<b>0.1</b>	<b>0.2%</b>
Employee Benefits Expense	(41.6)	(50.5)	8.9	21.5%	(23.7)	(26.8)	3.1	12.9%
Other Costs & Expenses	(16.2)	(15.0)	(1.1)	(7.1%)	(8.1)	(6.9)	(1.3)	(15.5%)
<b>Total Operating Expenses</b>	<b>(57.8)</b>	<b>(65.5)</b>	<b>7.8</b>	<b>13.5%</b>	<b>(31.9)</b>	<b>(33.7)</b>	<b>1.8</b>	<b>5.7%</b>
EBITDA	66.2	79.3	13.2	19.9%	40.5	38.8	(1.7)	(4.1%)
EBITDA Margin %	53.4%	54.8%	1.4%		56.0%	53.6%	(2.4%)	
NPAT	43.7	54.1	10.4	23.9%	27.6	26.5	(1.1)	(4.0%)
NPAT margin %	35.2%	37.3%	2.1%		38.2%	36.5%	(1.6%)	
Underlying Operating net cash flow pre tax <sup>2</sup>	64.5	77.9	13.4	20.8%	40.5	37.2	(3.3)	(8.1%)
Cash conversion ratio to EBITDA <sup>2</sup>	99.4%	98.1%	(1.3%)		99.9%	95.7%	(4.1%)	
EPS– diluted (cents) <sup>3</sup>	17.8	22.1	4.3	24.1%	11.3	10.8	(0.5)	(4.1%)

\$M unless otherwise stated

1. PCP: prior comparative period FY2020
2. Operating net cashflow and EPS excludes non-recurring cashflow items for FY2021
3. EPS has been calculated on a dilutive basis to include all ordinary shares and assumes all options currently on issue will vest in full.

Platform Statistics	FY2020 Actual	FY2021 Actual	Change 20 V 21	% Change 20 V 21	1H 2021 Actual	2H 2021 Actual	Change 1H V 2H	% Change 1H V 2H
<b>Funds Under Administration</b>								
FUA (EOP)	31,502	47,138	15,637	49.6%	38,799	47,138	8,340	21.5%
Fee Paying FUA % (EOP)	63.1%	65.6%	2.5%		63.4%	65.6%	2.2%	
FUA net inflows	9,080	9,811	732	8.1%	4,468	5,343	875	19.6%
<b>Funds Under Management</b>								
Managed Account (EOP)	5,795	9,835	4,041	69.7%	7,603	9,835	2,232	29.4%
Managed Funds (EOP)	1,483	1,911	429	28.9%	1,711	1,911	200	11.7%
<b>FUM (EOP)</b>	<b>7,277</b>	<b>11,746</b>	<b>4,469</b>	<b>61.4%</b>	<b>9,315</b>	<b>11,746</b>	<b>2,432</b>	<b>26.1%</b>
Managed Account net inflows	3,324	2,964	(360)	(10.8%)	1,335	1,629	294	22.0%
Managed Funds net inflows	382	283	(99)	(25.9%)	195	88	(107)	(54.9%)
<b>FUM net inflows</b>	<b>3,706</b>	<b>3,247</b>	<b>(459)</b>	<b>(12.4%)</b>	<b>1,530</b>	<b>1,717</b>	<b>187</b>	<b>12.2%</b>
Platform Revenue / average FUA (bps)	43.7	36.8	(6.9)	(15.8%)	40.5	33.7	(6.8)	(16.8%)
Underlying EBITDA / average FUA (bps)	23.3	20.6	(2.7)	(11.8%)	23.1	18.5	(4.6)	(19.8%)
Platform Revenue / average number of accounts (\$)	1,604	1,607	2.5	0.2%	1,655	1,551	(114.4)	(6.9%)
Accounts (EOP number)	81,804	97,319	15,515	19.0%	88,189	97,319	9,130	10.4%
Financial intermediaries (EOP number)	2,843	3,130	287	10.1%	2,982	3,130	148	5.0%

\$M unless otherwise stated

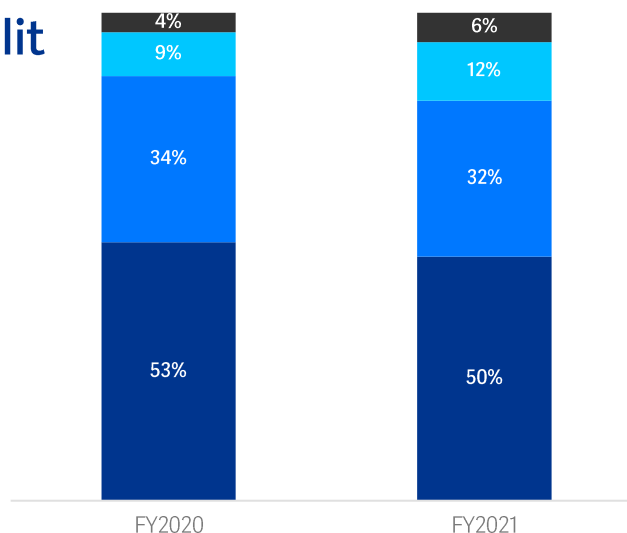
EOP – End of Period

Net Inflows exclude market movement

- Funds Under Administration (FUA) at 30 June 2021 of \$47.1 billion, an increase of \$15.6 billion (49.6% increase) for FY2021 (including a positive market movement of \$5.8 billion for the year).
- Record FUA net inflows of \$9.8 billion for FY2021.
- Funds Under Management (FUM) at 30 June 2021 of \$11.7 billion including Managed Account FUM at 30 June 2021 of \$9.8 billion
- Managed Account net inflows of \$3 billion for FY2021 and Managed Account positive market movement of \$1.1 billion for the year.

## Platform revenue split FY2020 & FY2021

- Management fees
- Transaction fees
- Ancillary fees
- Administration fees



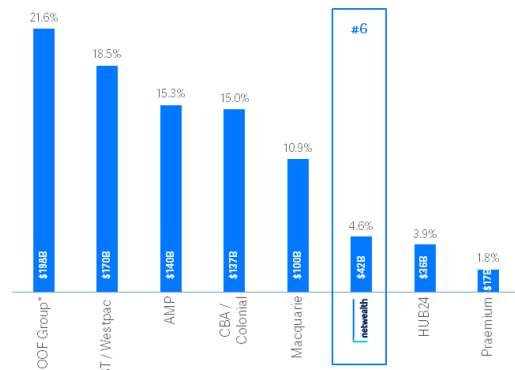
Source Netwealth

- Netwealth continues to diversify its revenue composition. Transaction fee revenue increased to 12% of platform revenue for FY2021, an increase from 9% in FY2020, driven by higher trading volumes, additional revenue streams and improvements in our trading margins driven by our larger scale.
- Administration fees in 2H2021 were 1.9% higher than 1H2021, as higher platform FUA was partially offset by full client migration to new pricing which came into full effect on 1 January 2021.
- At 30 June 2021 the cash transaction account as a percentage of FUA was 6.9%, lower than the FY2021 average of 7.9%. Revenue earned from cash transaction account was \$2.3 million lower in 2H2021 than 1H2021 due to lower average cash balances and lower income margin after absorbing RBA rate reductions.
- Platform Revenue over average FUA was 36.8 bps for FY2021, down 6.9 bps for the year. All accounts were transferred to new pricing by 1 January 2021.
- Average Account size increased to \$481,000 (Wrap \$1,082,000, Super \$240,000) for June 2021, up from \$385,000 for June 2020.
- Platform Revenue per Account increased slightly to \$1,607 (FY2020 \$1,604), reflecting the increase in average account size, higher Transaction and Ancillary revenues, offset by the transition of clients to new pricing and lower cash margins in 2HFY2021.
- Number of Accounts increased by 15,515 (19.0% increase) to 97,319. Financial Intermediaries using the platform at 30 June 2021 totalled 3,130, up 10.1% for FY2021.
- Employee Benefit Expenses increased by 21.5% to \$50.5 million for FY2021, predominately reflecting investment in the technology team over FY2020 and FY2021 (42 FTE), to enable innovation, product enhancements and ongoing infrastructure upgrades to provide an ongoing stable and scalable platform to accommodate our rapid growth.
- Total Other Costs and Expenses decreased by \$1.1 million to \$15.0 million for FY2021. Reductions in expenses predominately related to discontinuation of volume bonus rebates (offset by client fee reductions), and COVID-19 related reductions in spending on occupancy, travel and marketing.

## Industry recognition and performance

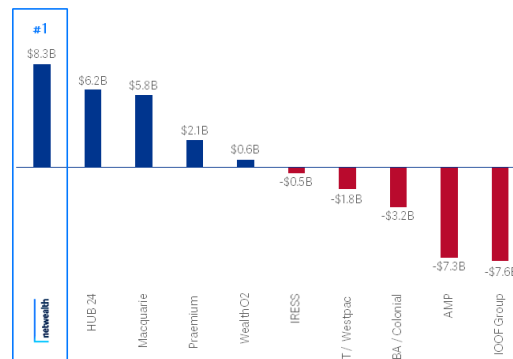
- Netwealth has continued to be recognised as a leading platform in Australia for growth, technology, functionality, and service.
- In the latest *Plan for Life* platform market update for March 2021, Netwealth recorded the largest quarterly FUA net inflows of \$2.3 billion. Netwealth maintained the highest 12-month net fund flows for the thirteenth consecutive quarter.
- Of the major platforms for 12 months to March 2021, Netwealth was the fastest growing platform in absolute terms and relative to its size. As at March 2021, Netwealth was the 6th largest platform provider in the market with a market share of 4.6%, up 1.0% for the year.

Platform providers by FUA market share  
% market share (Mar 2021)



Source: Plan For Life, Analysis of Wrap, Platform and Master Trust Managed Funds as at Mar 2021  
Total industry retail FUA of \$915.4B (as at Mar 2021)  
\*IOOF Group includes acquisition of MLC, HUB 24 Includes acquisition of Xplore Wealth

Platform provider net funds flows  
\$Billions (12 months to Mar 2021)



Source: Plan For Life, Analysis of Wrap, Platform and Master Trust Managed Funds as at Mar 2021  
Total net flows of +\$1.6B (Not included above: Others of -\$1.0B)  
\*IOOF Group includes acquisition of MLC, HUB 24 Includes acquisition of Xplore Wealth

During FY2021 Netwealth continued to be recognised as the leading specialist platform in the industry by advisers.

- In the *Investment Trends, May 2021 Planner Technology Report* Netwealth retained its number 1 rating in the industry for overall satisfaction among primary users for the tenth year, in addition to being rated No.1 for “Value for Money”.
- Netwealth received the highest net promoter score, for the second year in a row, as rated by advisers in the *Adviser Ratings 2020 Financial Advice Landscape Benchmarking Study*.
- In May 2021 the Netwealth Super Accelerator product won *Chantwest Best Advised Product of the year* for the 4th year in a row.

## Commentary and outlook

- Netwealth has successfully managed through COVID-19 and the subsequent economic disruption. Despite transitioning between working in office and remote working, there has been limited disruption to service and operation. Staff engagement and productivity remains high.
- Netwealth remains the fastest growing platform in the industry in both percentage and absolute terms in FY2021. Continued market share growth is expected in the years ahead.
- The major banks are exiting or have exited financial advice and the largest platforms have experienced prolonged and significant outflows. Many of the platforms are facing an increasingly large service, technology and functionality gaps and are either currently changing or are expected to, change ownership or be part of a M&A transaction.
- The changing advice landscape is leading to the establishment of new independent advice groups while other formerly aligned advisers move to existing independent advice groups. Importantly this provides Netwealth with significant new and substantial opportunities.
- With the platform industry and advisers in a state of flux and transition, Netwealth is well positioned to support advisers and their clients through these difficult conditions by

offering the highest quality platform to independent advisers and institutional wealth management firms.

- In the *Investment Trends, May 2021 Planner Technology Report* it was reported that non-aligned advisers now represent nearly 80% of all advisers, which has increased from 45% in 2017. This results in a substantial increase to Netwealth's addressable adviser market.
- The pipeline for new business remains very strong across both independent and dealer aligned advice practises. Netwealth is a market leader in the high-net-worth advice market and has a proven capability for executing on large scale client transitions with the recent transition of our very large Institutional private client business, almost complete.
- Netwealth's non-custodial SaaS solution XWrap continues to attract strong levels of interest from key clients (currently \$1.9 Billion of non-custodial assets) and, in order to meet client needs and capitalise on the significant market opportunity, Netwealth will be launching a new product to provide a non-custodial administration service tightly integrated into the custodial offering in the second half of FY2022.
- The new product will be an extension of our existing products and services, generate additional revenue through administration fees, provide greater efficiency for advisers and support our ongoing Whole of Wealth strategy.
- In early July, Netwealth launched the new Netwealth mobile app which will further underpin our Whole of Wealth strategy. The new mobile app, and the Netwealth client and adviser web portal, will be progressively enhanced to support a range of new data integrations including connectivity with Xeppo, additional bank feeds and property information.
- The Board has adopted the royal commission recommendation for the appointment of a single-purpose trustee of the superannuation fund. Netwealth has incorporated a company, Netwealth Superannuation Services Pty Ltd, for that purpose and is resourcing it appropriately to take on the responsibilities of trustee. Netwealth Superannuation Services Pty Ltd commenced operations in July 2021.
- To support our growth Netwealth will continue to invest in our infrastructure including upgrading our Business Process Management platform and accelerating our cloud migration program. These and other key initiatives will ensure our systems remain scalable, and enable us to continue to operate efficiently, while maintaining our high standards of client service.
- To expand our leadership in technology and service we will continue our ongoing investment in our technology team with an additional 35 staff planned in FY2022 (29 Australia, 6 Vietnam), which will increase our total technology team to 187 by the end of FY2022.
- Netwealth moved into its new head office on 1 July 2021. The head office has been designed to enhance collaborating, creativity and efficiency. The abnormally low premises expense in FY2021 and the additional expense of new office, will result in the after tax premises expenses (including amortisation and interest) being approximately \$1.5 million higher in FY2022.

- In FY2022 we are strategically stepping up our investment in people and technology to ensure we maintain our market leadership, drive new revenue streams and can scale our infrastructure to support our expected growth in the medium term. Following this strategic expense increase in FY2022, we expect the growth in expenses to normalise in FY2023 and beyond.
- As announced on 25 March 2021, the agreement between ANZ and Netwealth relating to the interest payable on the total pooled cash transaction banking account is expire on 24 March 2022. Netwealth is exploring a range of options for its pooled transaction cash accounts. This review is expected to be completed prior to expiry of the ANZ facility.
- Netwealth has absorbed 40 bps of margin over FY2020 and FY2021 resulting from the fall of RBA cash rate to 10bps. This reduction of 40bps is expected to be progressively recovered as the RBA official interest rate increases to 50 bps in the future.
- Netwealth successfully completed the migration to new pricing of all legacy customer accounts on January 2021. This was a pro-active initiative to ensure all Netwealth's customers are treated fairly and benefit from the growing economies of scale and efficiencies gained from investments in technology. Netwealth is well positioned compared to most of our key competitors, with no customers receiving legacy products or pricing.
- Based on current mix of inflows we are not expecting any material change to our administration fee margin in FY2022 from 2H2021.
- FY2022 has begun very well with strong inflow momentum continuing. At 16th August FUA had risen to \$49.7 Billion, FUM \$12.4 Billion and MA \$10.5 Billion.
- Based on Netwealth's current pipeline, existing clients and the growth in new clients currently transitioning onto the platform, projected FUA net inflows for FY2022 is forecast at approximately \$10 billion.
- Netwealth remains in a strong financial position:
  - Highly profitable, with strong EBITDA margin;
  - A very high correlation between EBITDA and operating cashflow, resulting in exceptional cash generation;
  - Very high levels of recurring revenue, which results in predictable revenue; and
  - Very low capital expenditure, debt free and significant cash reserves.

## About Netwealth

Netwealth is a financial services company listed on the Australian Stock Exchange (ASX: NWL). Netwealth was created with an entrepreneurial spirit to challenge the conventions of Australia's financial services.

We are a technology company, a superannuation fund trustee and an administration business. Above all we exist to inspire people to see wealth differently and discover a brighter future.

Founded in 1999, Netwealth is one of the fastest growing wealth management businesses in Australia.

We are rated No.1 by our clients for providing exceptional service\*.

Our financial products are:

- superannuation including accumulation and retirement income products;
- investor directed portfolio services for self-managed super and non-super investments;
- managed accounts; and
- managed funds.

Netwealth's digital platform supports how our financial products are delivered to market. For instance, via the platform, financial intermediaries and clients can invest and manage a wide array of domestic and international products.

The platform is built, developed and maintained by Netwealth's technology team. It is continuously enhanced using feedback from financial intermediaries, clients and other users and receives wide industry recognition as having market-leading functionality.

Supporting our financial products and technology platform is a significant investment in our people and resources to administer support, risk and governance and our custodial services.

This document has been authorised for release by CFO and Company Secretary, Mr Grant Boyle.

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\*Investment Trends May 2021 Planner Technology Report