

ASX Announcement

24 August 2021

Pepper Money Reports Strong First Half 2021 Results

- Statutory net profit after tax (NPAT) of \$56.0 million¹ up 41.1%² reflecting resilient Australian property market and strong demand for asset finance
- Adjusting for IPO related costs, Pro-forma NPAT³ up 57.3%² to \$66.1 million
- Total Assets under Management (AUM)⁴ closed the first half at \$16.0 billion with Lending AUM up 5.2%² to \$14.3 billion following record originations of \$3.7 billion
- Asset quality remain strong, with loss rates, excluding COVID-19 overlays, improving 9 bps² to 0.28%⁵ of Lending AUM
- Investment in technology continues to deliver scale, efficiency, with cost to income (CTI) of 43.3% an improvement of 0.6% on PCP²
- Well positioned to fund future growth after completing \$1.5 billion in securitisation transactions and an increase of \$0.7 billion in Prime warehouse capacity as at 30 June 2021

Pepper Money Limited (ASX: PPM) today announced a statutory net profit (NPAT) of \$56.0 million¹ for the half year ended 30 June 2021, up 41.1% on 1H 2020. On a Pro-forma basis, NPAT was up 57.3%² to \$66.1 million, reflecting continued strong results.

Commenting on the result, Pepper Money's CEO, Mr Mario Rehayem, said "The result reflects Pepper's strong track record of delivering growth in our chosen segments via innovative lending solutions. The strength and depth of our extensive partner network has enabled us to respond to customer demand, delivering record originations across both Mortgages and Asset Finance in 1H 2021.

"Our originations hit a milestone this half, we helped over 27,000 customers in the period either purchase or refinance a home, or secure asset finance, a record in our 21 years of business. Customers continue to choose Pepper for its service and real-life product offerings, our purpose built digital capabilities set us apart

¹ Statutory NPAT from continuing operations.

² Compared to prior comparative period (1H 2020).

³ Pro-forma NPAT reflects Statutory NPAT from continuing operations adjusted for one off items associated with the Initial Public Offering (IPO) completed on 25 May 2021. Management believes the disclosure of Pro-forma NPAT provides additional insight on the underlying performance for the period by excluding one off non-recurring items.

⁴ Total AUM: AUM from lending and servicing as at 30 June 2021 (closing)

⁵ Loan losses exclude COVID-19 Management overlay (\$(18.0) million expense in 1H 2020 and provision releases of \$5.0 million in 1H 2021).

from other non-bank lenders enabling us to approve loans within industry leading timeframes for a wider customer segment of the market.

“Our disciplined approach to lending, coupled with proactive ongoing engagement with customers and partners and the strength in underlying conditions has seen loan losses fall to 0.28% of Lending AUM compared to 0.37% in the same period last year.

“While we have seen a marginal increase across the mortgage prepayment rate, it is broadly in line with our historical and external benchmark rates⁶ and not unexpected given the level of refinancing activity observed in the market.

“We remain focused on improving experience across all stages of the customer journey including ways we can reward customers for loyalty.

“Our response to the current lockdown has been rapid, leveraging our learnings from 2020 and through our strong data analytics capabilities enabling us to identify and help customers that have been impacted at an early stage.

“Despite the lockdowns, momentum in our core market continues: the Australian property market remains buoyant, and we continue to see strong demand for Asset Finance as motor vehicle supply remains tight. Our pipeline of originations across all asset classes is strong. Our credit appetite is unchanged; however, we have increased our credit oversight and continue to take a prudent approach in the current environment.”

Lending Assets Under Management

Lending AUM increased to \$14.3 billion, up 5.2% compared with 1H 2020 and driven by strong demand across all asset classes.

Net Interest Margin (NIM) improved by 3bps² to 2.59% reflecting increased scale of the Asset Finance business and ongoing improvements in cost of funds.

Mortgage originations were up 33.9%² to \$2.8 billion for the half. NIM contracted slightly on 1H 2020 to 2.40% reflecting a higher mix of Prime loans.

Mortgage losses fell by 4bps to 0.01% of AUM from 0.06%, excluding COVID-19 Management overlays, reflecting the asset quality of the portfolio.

Asset Finance hit several milestones over the half, originations hit a high of \$0.9 billion, up 65.8% compared to 1H 2020. June was a standout month, with originations peaking at \$0.2 billion. Demand was strong across all channels.

NIM improved by 21bps to 3.37%, with total Asset Finance losses trending down from 1.79% to 1.33% of AUM after excluding COVID-19 Management overlays.

Both Mortgage and Asset Finance 90+ days arrears trended down over the half to pre-pandemic levels. Given current conditions the business is appropriately provisioned, having \$18.0 million in COVID-19 Management overlay, after a release of \$5.0 million in respect of Asset Finance.

The Loan and Other Servicing business continues to attract interest, Servicing AUM closing at \$1.7 billion.

⁶ Fitch Ratings: Mortgage Market Index – Australia: The Dinkum RMBS Index 1Q21. 28 May 2021

Digital Enablement

“Our investment in digital technologies is improving customer and partner experience and delivering scale and efficiency, simplifying our processes.

“In Mortgages we continue the roll out of our digital lead-generation tools, Pepper Product Select and Pepper Resolve to our distribution partners. Since its’ launch, Pepper Resolve has provided 3,042 customers⁷ with a lending solution who would have otherwise been declined, and more than 14% of settlements have been generated via Pepper Product Select.⁸

“In Asset Finance, Solana, our API enabled platform has increased capacity to assess Consumer loans by 25% and has seen a capacity uplift of 42% for Settlement Officers to process Consumer loans.

“We continue to leverage our technology stack, creating capacity and efficiencies to accommodate future growth. We are listening to our customers and partners - designing solutions giving them more ways to engage and interact with us.” said Mr Rehayem.

Funding

Over the half, Pepper Money completed two Residential Mortgage Backed Securities (RMBS) transactions, raising over \$1.5 billion, as well as securing \$0.7 billion in additional warehouse capacity for Prime Mortgages.

“It was pleasing to see strong demand in the capital markets, we had a record year in 2020 in terms of issuances and continue to see strong support for both our Prime and Non-Conforming issuances. Our recent PRS30 deal, which priced on August 12, 2021, added a further \$0.9 million to continue to fund future growth.” said Mr Rehayem.

Outlook

Commenting on the remainder of the year, Mr Rehayem said, “We have delivered a very strong 1H 2021 result. We are well positioned to take advantage of the positive momentum we are observing in the Australian and New Zealand property markets and demand for asset finance.

“Our investment in technology is driving efficiency and scale and enabling us to operate on a business as usual basis, despite the recent lockdowns. Subject to no significant deterioration in economic conditions following the most recent lockdowns and ongoing uncertainty of COVID-19, we expect to exceed our CY 2021 Prospectus forecast of \$120.7 million.”

In line with the Prospectus the Board expects to pay a final dividend in respect of CY 2021 within a range of 30-40% of NPAT, and for this to be paid early in the second quarter of CY 2022.

ENDS

This announcement was authorised for release by the Board.

⁷ Number of leads generated for the 6 months to 30 June 2021.

⁸ Contribution to total settlements for Australian Mortgages for the 6 months to 30 June 2021.

About Pepper Money

Pepper Money is one of Australia and New Zealand's leading non-bank lenders. It was established in 2000 as a specialist residential home loan lender in Australia with a focus on providing innovative home loan solutions to customers that were being underserved by traditional lenders. Pepper Money today has a broad product offering of residential home loans, asset finance commercial real estate and novated leases in Australia and residential home loans in New Zealand. For more information visit <https://www.pepper.com.au>

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