

Leading non-bank lender, **Pepper Money** exceeds full year guidance with record CY2021 result

Result Highlights

- Statutory NPAT¹ of **\$130.7** million up **31%**² and Pro-forma NPAT³ of **\$141.9** million up **34%**
- Total originations up **84%**. Total AUM up **13%**
 - Mortgage originations up **89%**, AUM grew **15%** to **\$12.3** billion – delivering **2.6** times system growth in 2H CY2021⁴
 - Asset Finance originations up **70%**, AUM grew **33%** to **\$3.5** billion – delivering **8.2** times system growth 2H CY2021⁵
- Total operating income up **18%** to **\$375.8** million
 - Balanced portfolio with Asset Finance contributing 30%
- Total NIM of **2.56%**, with Mortgages 2.33% and Asset Finance 3.41% all ahead of Prospectus forecast
- Continued CTI improvement – **1.3%** better than CY2020 as purpose-built technology platforms continue to support accelerated scaled growth
- **\$9.9** billion in total capacity⁶ at 31 December, up **31%**
- Pro-forma **Return on average Equity of 25%**⁷ and **fully franked dividend of 9 cents** per share – **annualised yield 5.5%**⁸
- Well funded to support future growth

| | CY2021 | CY2020 | Movement |
|---|-----------------|----------|----------|
| Statutory NPAT | \$130.7m | \$99.4m | 31% |
| Pro-forma NPAT | \$141.9m | \$106.3m | 34% |
| Originations | \$8.5bn | \$4.6bn | 84% |
| Lending AUM | \$15.8bn | \$13.3bn | 19% |
| Total AUM | \$17.0bn | \$15.0bn | 13% |
| Net Interest Margin (NIM) | 2.56% | 2.66% | (10bps) |
| Total operating income | \$375.8m | \$318.9m | 18% |
| Pro-forma Cost to income (CTI) ⁹ | 43.3% | 44.6% | 1% |
| Return on average Equity | 25% | | |
| Dividend Yield (annualised) | 5.5% | | |

Pepper Money Limited (ASX: PPM) today announced a Statutory net profit after tax (NPAT) of \$130.7 million for the year ended 31 December 2021, up 31%. Adjusting for IPO and related items, **Pro-forma NPAT was up 34% to \$141.9 million**. These are Pepper Money's first full-year results since listing on the ASX in May 2021.

Commenting on the result, Pepper Money's CEO, Mr Mario Rehayem, said: "The strength of Pepper Money's CY2021 financial results is testament to our ability to **deliver on our strategy**."

"Our ongoing focus on supporting **underserved customers**, leveraging our **purpose-built technology platform** and **digital tools** to deliver a better experience for our partners and customers and our diverse sources of funding, have enabled us to grow at a faster rate than the market."

"We have maintained our disciplined and prudent approach to **credit risk management** utilising our data analytics capabilities."

"In Mortgages, despite an intensely competitive market environment and high levels of re-financing, we achieved record originations of **\$6.4 billion**. Our **Prime** originations grew by **85%** to **\$3.7 billion** while in **Non-Conforming** we grew originations by **96%**."

"Our Asset Finance business saw originations grow by **70%**, with **Commercial** originations growing **86%** and **Consumer 55%** on CY2020. Notably, Pepper Money financed **11%**¹⁰ of all electric vehicles (EVs) sold in Australia in CY2021 via our EV lending program – making us the **largest electronic vehicle lender** in the country".

Net Interest Margin

Total NIM, as well as Mortgage and Asset Finance NIM, all exceeded Prospectus Forecasts.

Total NIM of **2.56%** was down 10 basis points on CY2020. A strong mix contribution from Asset Finance where NIM grew 17 basis points to **3.41%** helped offset Mortgage NIM compression of 20 basis points to **2.33%**.

Lending Assets Under Management

Total lending AUM increased to **\$15.8 billion**, up **19%** driven by strong demand across all asset classes.

Mortgage AUM of **\$12.3 billion** was up **15%** as the business grew ahead of systems in an intensely competitive market – growing **2.6** times system in the second half of the year, following on from **2.3** times in the first half.

Asset Finance AUM grew by **33%** to **\$3.5 billion**, delivering above system growth of **8.2** times in the second half, following from **4.3** times system in the first half. With closing AUM of **\$3.5 billion**, we believe this makes Pepper Money the largest non-bank asset finance lender in Australia.

Asset quality continued to improve with **Loan losses as % Lending AUM** (excluding COVID-19 Management Overlays) of 0.23% **2bps better** than CY2020.

Cost to Income (CTI) & technology enablement

Pro-forma CTI of 43.3% improved **1.3%** reflecting both the scale and efficiency benefit from Pepper's investment in technology as well as ongoing focus on disciplined cost management.

Mr Rehayem said, "We approach cost management with an eye to capitalising on opportunities to grow revenue at positive margins. Our disciplined approach to expense management in CY2021 saw our Pro-forma non Employee expenses **decline by 10%** despite:

- increasing our marketing spend to grow originations by capitalising on strong market conditions; and
- our Pro-forma employee benefits expense increasing by 17% due to higher FTE's and variable performance related bonuses and commissions reflecting over achievement across all key metrics. That being said Employee Costs per FTE declined 6% year on year."

Funding

Warehouse capacity increased **31%** taking total capacity to **\$9.9** billion. Pepper Money completed five Residential Mortgage-Backed Securities (RMBS) and one Asset-Backed Securities (ABS) transactions, raising **\$4.8** billion, with Pepper Money's Funding team again the most active issuer in the public securitisation market¹¹.

Mr Rehayem said, "It was pleasing to see continued strong demand in the debt capital markets off the back of record issuances in CY2020. Whilst prices eased in the second half, we continued to see strong support across each of our three programmes and welcomed a number of new investors."

Dividend

The Board has declared a **fully franked dividend of 9 cents per share**. The dividend is in respect of CY 2021 Pro-forma NPAT for the period from IPO completion to 31 December 2021, and represents a pay-out dividend ratio of 40%, the top end of the range outlined in the Prospectus.

Outlook

Commenting on the outlook for CY2022, Mr Rehayem said, "We finished the year strongly with fourth quarter applications up 59% in Mortgages and 60% in Asset Finance. With AUM the key driver of future revenue and profitability we are off to a strong start in CY2022, given we closed CY2021 with **Lending AUM 19% higher** than the previous year."

"We remain focused on executing our vision to help half a million customers trust Pepper Money to finance their homes, cars, equipment and commercial properties by 2023. Our customer, new product and distribution plans, places us in the best position to continue to capture opportunities for growth."

"We have a strong proven track record of growth and expect this will continue as we expand our market share in our addressable markets."

ENDS

This announcement was authorised for release by the Board.

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>

Investor relations

Catherine Buckmaster

P: +61 2 7227 3879

CBuckmaster@pepper.com.au

Media contacts

Helen Karlis

Domestique Consulting

M: +61 (0) 419 593 348

helen@domestiqueconsulting.com.au

¹ Statutory NPAT from continuing operations.

² Unless otherwise stated, all % movements are compared to year ending 31 December 2020 (CY2020).

³ Refer to Section 4 Financial overview of the Prospectus lodged with ASIC on 7 May 2021 for basis of preparation of Pro-forma numbers and CY2020 comparatives.

⁴ Above system growth compares Pepper Money Australian mortgage AUM growth, excluding whole loan sale executed during the year, to the Australia total housing credit, RBA D2 lending and credit aggregates (including owner-occupier housing credit and investor housing credit) for the 12 months ended 31 December 2021.

⁵ Above system growth compares Pepper Money Asset Finance AUM growth to new household loan commitments for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0. Assumes market size is approximately 4x lending commitments for last 12 months. New business loan commitments, finance lease and fixed term, purchase of vehicles, plant and equipment, ABS 5601.0 T. Assumes market size is approximately 4x lending commitments for last 12 months.

⁶ Committed and uncommitted facility limits.

⁷ Pro-forma NPAT over average equity.

⁸ Dividend yield based on average share price from time of IPO to year end (25 May – 31 December 2021).

⁹ Cost-to-income ratio defined as: Total operating expenses (including depreciation, amortisation and corporate interest) divided by total operating income before loan losses

¹⁰ 11% Calculated as follows: Tesla sales 12,094 (source: EV Council: <https://www.abc.net.au/radio/programs/worldtoday/electric-vehicle-sales-in-australia-triple-in-2021/13734340>). Other non-Tesla Fully Electric Sales 5,149 (source: Federal Chamber of Automotive Industries: <https://www.whichcar.com.au/news/australia-electric-vehicle-sales-2021>). Total EV Sales 17,243. Financed by Pepper 1,853 or 11%.

¹¹ Westpac "Australian Securitisation: 2021 in Review. 2022 Year Ahead. 15th December 2021, page 16 & 17.