

Leading non-bank lender, **Pepper Money** delivers record first half CY2022 results

Result Highlights

- **Statutory NPAT¹** of \$72.2 million up 29%² and **Pro-forma NPAT³** of \$73.1 million **up 11%**.
- **Total Originations up 53%**. Total AUM up 24%:
 - **Mortgage Originations up 48%**, AUM grew 24% to \$14.0 billion – delivering **4.0 times system growth⁴** in first half 2022 ("1H CY2022").
 - **Asset Finance Originations up 67%**, AUM grew 43% to \$4.3 billion – delivering **21.5 times system growth⁵** in 1H CY2022.
- **Total Operating Income** of \$198.4 million **up 12%**:
 - Balanced portfolio with Asset Finance contributing 36%.
- **Total NIM of 2.29%** (23bps) below December 2021, with **Mortgages at 2.06%** and **Asset Finance at 3.07%**.
- **Four public securitisations completed** in the half totalling \$2.5 billion:
 - Pepper Prime 2022-1 of \$1.0 billion, including \$330.0 million **Green Bond** settled 16 March;
 - PRS 32 of \$500.0 million settled 30 March;
 - SPARKZ 5 - ABS for \$700.0 million settled 19 May; and
 - Inaugural **Pepper Social Bond** of \$300.0 million settled 9 June 2022.
- Pro forma CTI of 44.2%. After removing the impact of an impairment booked in respect to the equity investment in Volt Bank⁶ - normalised **CTI was 43.2%**, flat on prior periods.
- **Warehouse capacity increased to \$11.0 billion⁷** as at 30 June 2022, up 11% on 31 December 2021.
- The Board has declared a **fully franked interim dividend of 5.4 cents per share** – which equates to an **annualised dividend yield of 6.3%⁸**.

For the 6 months ended 30 June	1H CY2022	1H CY2021	Movement ⁹
Statutory Net Profit after Tax (NPAT)	\$72.2 m	\$56.0 m	+29%
Pro-forma NPAT	\$73.1 m	\$66.1 m	+11%
Originations	\$5.6 bn	\$3.7 bn	+53%
Lending Assets under Management (AUM)	\$18.3 bn	\$14.3 bn	+28%
Total AUM	\$19.4 bn	\$15.6 bn	+24%
Net Interest Margin (NIM)	2.29 %	2.59 %	(30) bps
Total Operating Income	\$198.4 m	\$177.2 m	+12%
Loan Losses % AUM (excluding Post Model Overlay) ¹⁰	0.18 %	0.28 %	+10 bps
Pro-forma Cost to Income (CTI) ¹¹	44.2 %	43.3 %	(1)%
<i>Normalised for impairment of equity investment</i>	<i>43.2 %</i>	<i>43.3%</i>	<i>Flat</i>
Interim Dividend per share	5.4 cents	N/A	
Annualised Dividend Yield	6.3 %	5.5 % ¹²	+80 bps

Pepper Money Limited (ASX: PPM) ("Pepper Money" or the "Company") today reported **Statutory Net Profit After Tax** ("NPAT") of \$72.2 million for the six months ended 30 June 2022, up 29% on prior comparable period² ("PCP"). Adjusting for one-time expenses relating to the acquisition of Stratton Finance Pty Limited in CY2022, and IPO and related items in CY2021, **Pro-forma NPAT** was up 11% to \$73.1 million.

Business Highlights

Pepper Money CEO, Mario Rehayem, said, *"Our strong 1H CY2022 financial performance is testament to the resilience of our business, the diversity of our income streams, and our ability to respond to cycles and deliver attractive returns"*.

"We entered CY2022 prepared for volatile market conditions with expectations of interest rate increases, macroeconomic and geopolitical uncertainty, and funding constraints. Against this backdrop we accelerated opportunities to grow our loan books and delivered record originations of \$5.6 billion in the half year ended 30 June 2022, up 53% on PCP. We have continued to grow well ahead of system, with our Mortgage portfolio growing 4.0 times and Asset Finance growing 21.5 times systems versus second half 2021".

To support originations growth, the Company closed four securitisations in 1H CY2022 totalling \$2.5 billion and increased its warehouse capacity to \$11.0 billion. This funding included a \$330.0 million Green Bond program and Pepper Money's first Social Bond of \$300.0 million reinforcing the Company's commitment to sustainability.

The Company has continued to ensure it is well funded for growth in 2H CY2022 having settled its fifth public securitisation (PRS 33) on 28 July 2022, raising \$500.0 million and bringing the total funding raised this year to \$3.0 billion.

Mr Rehayem said, *"Our business model is premised on understanding and managing risk. We have always held six months of funding head room to ensure we are protected in a downturn and are well supported to grow in an upturn."*

"We have maintained our disciplined and prudent approach to credit risk management. We continue to leverage our 22 years of experience of managing through cycles, utilising our data analytics capabilities. This has seen credit quality¹⁰ improve by 10bps over PCP to 0.18% of AUM. We continue to hold strong provisions for credit losses, including a management and post model overlay of \$24.7 million to protect the business from any sustained economic downturn".

Financial Metrics

Net Interest Margin ("NIM") in 1H CY2022 was impacted by rising BBSW and swap rates and continued pressure from home loan competition. The Company closed 1H CY2022 with total NIM of 2.29% versus 2H CY2021 NIM of 2.52%, a decline of (23) bps.

Pro-forma CTI of 44.2% includes a \$(2.1) million impairment booked in relation to an equity investment held by Pepper Money in Volt Bank, which was written off following the return of Volt's banking license on 29 June 2022. Excluding this item normalised CTI was 43.2% - flat on PCP.

Interim Dividend

The Board has declared a fully franked interim dividend of 5.4 cents per share. The interim dividend represents a pay-out ratio of 32.5%, and an annualised yield of 6.3%. It is anticipated that future dividend payments will be weighted equally between interim and final reflecting the seasonality in the business.

Stratton Finance Pty Limited acquisition

On 1 July 2022, Pepper Money completed the acquisition of a 65% interest in Stratton Finance Pty Limited ("Stratton"). Pepper Money paid cash of \$77.8 million for the 65% interest, funded in part from a drawdown on Pepper Money's Corporate Debt Facility and in part from existing cash balances.

The transaction valued Stratton at \$120.0 million on a debt free / cash free basis. Pepper Money and Stratton have also entered into a Put and Call Option in relation to the remaining 35% stake in Stratton, exercisable from Q1 CY2024 through Q1 CY2026. The base price for the remaining 35% interest is \$42.0 million which is indexed based on Stratton's performance from completion of the acquisition of the 65% interest and the acquisition of the remaining 35%.

The operating results and assets and liabilities of Stratton will be consolidated from 1 July 2022.

Outlook

While Australia remains on track to deliver positive economic growth, rising interest rates appear likely to continue over the balance of CY2022 and into CY2023 if inflation remains elevated. Swap rates are also anticipated to continue at heightened levels.

Since the Reserve Bank of Australia commenced rate rises in May 2022, the industry has experienced a decline in mortgage applications. According to Equifax, for the three months from May to July 2022, mortgage enquiries have declined:

- (21.6)% on the prior three month period (February to April 2022);
- (7.8)% on the prior corresponding period (May – July 2021); and
- (14.9)% in July 2022 compared to June 2022.

Equifax has also reported that auto-vehicle demand recorded moderate growth of 1% in the three month period from May to July 2022 compared to the prior three months (February to April 2022). Pepper Money expects this trend to continue, at least in the short term.

Mr Rehayem concluded, *"With our total Assets Under Management at a record \$19.4 billion as at 30 June 2022 and the strength of the income earned from AUM, we are well positioned to navigate the current challenging market conditions."*

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>

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Half Year Results webcast details

Date: Wednesday, 24 August 2022

Time: 11:00am (AEST)

Webcast viewing link: <https://webcast.openbriefing.com/8801/>

Participant registration link: <https://s1.c-conf.com/diamondpass/10022589-3malkj5.htm>

¹ Statutory NPAT from continuing operations.

² Unless otherwise stated, all % movements are compared to six months ended 30 June 2021 (prior comparable period "PCP").

³ 1H CY2022: Pro-forma Net Profit after Tax ("NPAT") has been adjusted to separate \$0.9 million of one-off items incurred in the period as a result of the acquisition of Stratton Finance Pty Limited, completed 1 July 2022. For the prior comparable period \$10.1 million of one-off items that related to the Initial Public Offer ("IPO"), completed 25 May 2021 have been excluded.

⁴ Above system growth compares Pepper Money's Australian mortgage AUM growth, excluding whole loan sale executed during the six months to 30 June 2022, to the Australia total housing credit, RBA D2 lending and credit aggregates (including owner-occupier housing credit and investor housing credit) for the six months to June 2022. Growth is versus December 2021.

⁵ Market size calculated as approximately 4x lending commitments for last 12 months for purchase of road vehicles, other transport vehicles and equipment, ABS 5601.0 plus new business loan commitments, finance lease and fixed term, purchase of vehicles, plant and equipment, ABS 5601.0. Systems growth compares Pepper Money's Asset Finance AUM as at 30 June 2022 to 31 December 2021.

⁶ \$(2.1) million pre-tax write down to the equity investment in Volt Bank was booked following the return of their banking license 29 June 2022.

⁷ Committed and uncommitted facility limits, excluding Pepper Money notes.

⁸ Dividend yield based on average price from 1 January to 30 June 2022.

⁹ Movement: Variances are presented as positive / better or (negative / worse) based on value contribution.

¹⁰ Total losses % average lending AUM, excluding Post Model Overlay: Year to June loan loss expense divided by average lending AUM for the relevant period

¹¹ Cost-to-income ratio defined as: Total operating expenses (including depreciation, amortisation and corporate interest) divided by total operating income before loan losses

¹² Annualised Dividend yield for CY2021