

ASX Announcement  
 23 February 2023

## Pepper Money delivers strong CY2022 financial performance - growing Originations and AUM in challenging market conditions

### Result Highlights

- **Statutory NPAT**<sup>1</sup> of \$140.5 million up 8%<sup>2</sup> on CY2021.
- **Pro-forma NPAT**<sup>3</sup> of \$142.0 million marginally ahead of CY2021 (\$141.9 million).
- **Record total Originations** of \$9.6bn up 14% on prior corresponding period (PCP). **Total AUM** increased 13% to \$19.2 billion:
  - **Mortgage Originations** up 7%, on PCP to \$6.8 billion. AUM grew 10% to \$13.5 billion.
  - **Asset Finance Originations** up 35% to \$2.8 billion with AUM increasing 35% to a record \$4.7 billion.
- **Total Operating income** grew 9% on PCP to \$408.2 million comprised of balanced portfolio mix from:
  - **Mortgages** contributing 60%
  - **Asset Finance** contributing 37%<sup>4</sup>.
  - **Loan & Other servicing** contributing 3%.
- **Total NIM** of 2.20%, with Mortgages 1.98% and Asset Finance 2.91%. December 2022 **Exit NIM** showing flow through of rate increases at 2.29% in total, Mortgages at 2.03% and Asset Finance at 3.02%<sup>5</sup>.
- **Loan Losses as a percentage of AUM** improved 1bps from 0.23% in CY2021 to 0.22% in CY2022.
- **Seven public securitisations completed** in CY2022 raising over \$5.0 billion:
  - Pepper Prime 2022-1 of \$1.0 billion, including \$330.0 million **Green Bond** settled 16 March 2022;
  - PRS 32 of \$500.0 million settled 30 March;
  - SPARKZ 5 - ABS for \$725.8 million settled 19 May;
  - Inaugural **Pepper Social Bond** of \$300.0 million settled 9 June;
  - PRS33 of \$500.0 million settled 28 July;
  - Pepper Prime 2022-2 of \$1.25 billion settled 8 September; and
  - PRS34 of \$750.0 million settled 13 October.
- \$11.3 billion in **warehouse capacity**<sup>6</sup> at 31 December 2022, up 14% on December 2021.
- **Fully franked final dividend** of 5.1 cents per share declared – total CY2022 **dividends of 10.5 cents** fully franked, equating to an **annualised yield of 6.3%**.
- Pepper Money remains **well funded** to support future growth with **unrestricted cash** at \$114.3 million at year end.

	CY2022	CY2021	Movement
Statutory NPAT	\$140.5 m	\$130.7	+8%
Pro-forma NPAT	\$142.0 m	\$141.9	+0%
Originations	\$9.6 bn	\$8.5 bn	+14%
Lending AUM	\$18.2 bn	\$15.8 bn	+15%
Total AUM	\$19.2 bn	\$17.0 bn	+13%
Net Interest Margin (NIM)	2.20%	2.56%	(36)bps
Total operating income	\$408.2 m	\$375.8 m	+9%
Pro-forma Cost to income (CTI) <sup>7</sup> (%)	46%	43%	(3)%
Pro-forma Normalised Cost to income (CTI) <sup>8</sup> (%)	44%	43%	(1)%
Final Dividend (per share)	5.1 cents	n/a	n/a
Full Year Dividend (per share)	10.5 cents	9.0 cents	+17%

**Pepper Money Limited** (ASX: PPM) today announced its full year results for the 12-month period ending 31 December 2022 (CY2022). The Company reported Statutory Net Profit after Tax (NPAT) of \$140.5 million for the year, up 8% on CY2021 and Pro-forma NPAT of \$142.0 million marginally ahead of the PCP.

Pepper Money's CEO, Mr Mario Rehayem, said: *"Pepper Money rose to the challenges that uncertain and weakening market conditions presented over the year. We entered CY2022 with a strong focus on driving volume to support AUM growth, expecting that the emerging economic trends and interest rate increases would see the market slow over the latter part of the year"*.

*"We successfully executed on our strategy in the first half of the year delivering above systems growth. Our Lending AUM on 30 June 2022 was \$18.3 billion and Originations of \$5.6 billion in total represented growth of 53% on the first six months of CY2021"*.

*"The second half of the year saw significant softening in the markets in which we operate, as the impact of consecutive rate rises coupled with volatility in capital markets impacted both customer volume and funding costs"*.

*"Given the breadth of our product offerings, and the depth of our capability in pricing for risk, we shifted our focus away from low yielding prime residential mortgages to our higher yielding Asset Finance, Commercial Real Estate and Non-conforming Mortgage portfolios. While Origination growth moderated in the second half of CY2022, most notably in our Mortgage business, we were able to deliver an additional \$4.0 billion of Originations in the period ending CY2022 with record Originations of \$9.6 billion, representing growth of 14% on PCP. For the full year, this saw our Mortgage business deliver 2 times systems growth<sup>9</sup>, and Asset Finance an impressive 35 times systems growth<sup>10</sup>. We were able to achieve these annualised growth rates through our strategy to drive Originations ahead of the market softening."*

### **Lending Assets Under Management (AUM)**

Total lending AUM for CY2022 increased to \$18.2 billion, up 15% on PCP.

CY2022 Mortgage AUM grew by \$1.2 billion on CY2021 to \$13.5 billion representing growth of 10%.

CY2022 Asset Finance AUM grew by 35% on the PCP to \$4.7 billion - making Pepper Money a leading non-bank asset finance lender in Australia.

### **Net Interest Margin (NIM)**

Net Interest Margin of 2.20% for CY2022 was (36)bps below PCP. NIM compression was as a result of strong competition impacting customer rates, rising swap rates, volatility in BBSW and higher funding costs.

Mortgages NIM of 1.98% for CY2022 declined (35)bps on CY2021. While Pepper Money implemented back and front book price increases following the Reserve Bank of Australia increases to the official cash rate, the lag between BBSW increasing in advance of RBA rises coupled with lags in customer rate changes drove NIM compression. NIM was further impacted by increased cost of funds as funding spreads returned to pre-COVID levels. Mortgages exit NIM for December CY2022 at 2.03% reflecting a stabilisation in margin as price increases work through the portfolio.

Asset Finance NIM of 2.91% for CY2022 was (50)bps below CY2021. Rising swap rates and funding costs drove the decline, which Pepper Money partially recovered through pricing increases. NIM was also impacted by business mix with an increasing contribution being generated by Novated Leasing, which typically has lower NIM but has the benefit of lower loan losses.

### **Credit quality**

Excluding the impact of Management Overlays, the ongoing strength in Pepper Money's credit performance is seen through Loan Losses as a percentage of AUM, which improved 1bp from 0.23% in CY2021 to 0.22% in CY2022.

Including Management Overlays total Credit Expense increased (35)% on PCP to \$33.3 million in line with the growth in the portfolio.

Given the possibility of increased consumer stress throughout CY2023, following eight consecutive interest rates rises in 2022, and the expectation of further increases in early 2023, Pepper Money continues to be well provisioned. On 31 December 2022 the Company held a total provision for credit losses of \$122.2 million, an increase of 10% on CY2021.

### **Discretionary cost management**

Pro-forma CTI of 46% in CY2022 was impacted by the impairment taken in the first half for the write off of the equity investment In Volt Bank<sup>11</sup> and the consolidation of Stratton Finance Pty Limited following the acquisition of 65% of the business on 1 July 2022. Normalising for these two items, CTI at 44% was in line with CY2021 (43%). Pepper Money remains focused on disciplined cost management given the inflationary environment.

### **Funding**

Warehouse lines increased 14% taking total capacity to \$11.3 billion. Pepper Money completed six Residential Mortgage-Backed Securities (RMBS) transactions and one Asset-Backed Securities (ABS) transaction in CY2022, raising over \$5.0 billion, making Pepper Money the most active issuer in the public securitisation market<sup>12</sup>.

Mr Rehayem said, *“Since 2003, Pepper Money has securitised in excess of \$33.2 billion across 54 transactions. In CY2022 we increased our warehouse capacity by 14% to \$11.3 billion compared to December 2021. We successfully executed seven Public Term Securitisations, raising over \$5.0 billion throughout the year, and in total we secured \$18.2 billion across all of our funding programs. The fundamental strength of our funding saw us welcoming four new investors throughout the year, at a time when capital market conditions were highly volatile, and investors were looking for strong, secure opportunities.”*

### **Dividend**

The Board has declared a fully franked final dividend of 5.1 cents per share. This brings total dividend paid or payable in relation to CY2022 to \$46.1 million and equates to total full year dividends declared of 10.5 cents per share. This represents a pay-out ratio of 32.50% on Pro-forma NPAT and is in line with the Board Dividend Policy of a pay-out ratio of 30-40%.

### **Outlook**

Commenting on the outlook for CY2023, Mr Rehayem said, *“The start to CY2023 has again brought some challenges. Following the RBA’s 25bp increase to cash rates in February, they have indicated that there will be further interest rate rises, and we expect this to be weighted to the first half of the year. Inflation remains high and capital market volatility is likely to continue in the short term”.*

*“Pepper Money’s growth strategy, and medium-term growth outlook, continues to be structured around building sustainable AUM with acceptable risk-adjusted returns. While the start of CY2023 has seen a continuation of the challenges faced in the second half of CY2022, Pepper Money has a strong track record of over 22 years of delivering strong performance and growth through all cycles”.*

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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- <sup>1</sup> Statutory NPAT from continuing operations.
- <sup>2</sup> Unless otherwise stated, all % movements are compared to year ending 31 December 2021 (CY2021).
- <sup>3</sup> Pro-forma pre-tax adjustments for CY2022 of \$(1.5) million are one-off in nature as they relate to the acquisition of Stratton Finance Pty Ltd completed 1 July 2022. CY2021 total \$(16.1) million, Pro-forma pre-tax adjustments relate to the IPO. Pro-forma NPAT from continuing operations.
- <sup>4</sup> Includes six months of Stratton Finance Pty Ltd following the acquisition of 65% on 1 July 2022.
- <sup>5</sup> Exit NIM for Mortgages normalised to remove the timing benefit of the whole loan sale executed in November 2022. Asset Finance December exit NIM normalised to remove the timing benefit from hedge accounting.
- <sup>6</sup> Committed and uncommitted facility limits.
- <sup>7</sup> Cost-to-income ratio defined as: Pro-forma Total operating expenses (including depreciation, amortisation, and corporate interest) divided by Total operating income before loan losses
- <sup>8</sup> Cost-to-income ratio defined as: Total operating expenses (including depreciation, amortisation, and corporate interest) divided by total operating income before loan losses
- <sup>9</sup> Mortgages: Australian mortgages only. Growth compares Pepper Money's Australian Mortgage AUM growth, excluding whole loan sale executed in the half year, to the Australian total housing credit, RBA D2 lending and credit aggregates (including owner-occupier housing credit and investor housing credit).
- <sup>10</sup> Asset Finance: 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.
- <sup>11</sup> \$(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.