# 1H23 Investor Presentation

**David Stevens CEO and Managing Director**
**Simon Ward CFO**

**All values in $AUD unless stated otherwise**

# Important notice and disclaimer

The material in this presentation is provided for general information purposes only and is current as at the date of this presentation. It is not a prospectus or product disclosure statement, financial product or investment advice or a recommendation or offer to acquire Harmoney shares or other securities. It is not intended to be relied upon as advice to investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors should assess their own financial circumstances and seek professional legal, tax, business and/or financial advice before making any investment decision. The information in this presentation does not purport to be complete. It should be read in conjunction with Harmoney's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, which are available at www.asx.com.au.

This presentation may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Harmoney Group's business and operations, market conditions, results of operations and financial condition, specific provisions and risk management practices. Such forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Harmoney Group and which may cause actual results, performance or achievements to differ materially from those expressed or implied by such statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date thereof. Past performance is not indicative of future performance.

No representation or warranty, express or implied, is made as to the fairness, completeness, accuracy, adequacy or reliability of information, opinions or conclusions in this presentation, including the financial information. To the maximum extent permitted by law, none of Harmoney or its related bodies corporate or their respective, its directors, officers, employees or contractors or agents do not accept liability or responsibility for any loss or damage resulting from the use or reliance on this presentation or its contents or otherwise arising in connection with it by any person, including, without limitation, any liability from fault or negligence.

The financial information in this presentation has not been audited in accordance with Australian Auditing Standards.

This presentation contains certain non-IFRS measures that Harmoney believes are relevant and appropriate to understanding its business. Investors should refer to the 1H23 Results for further details.

All values are expressed in Australian currency unless otherwise stated. All intellectual property rights in this presentation are owned by Harmoney.

# Contents

1. **Delivering results 1H23**
2. **Overview of business model**
3. **Financial results**
4. **Strategy and outlook**

**Harmoney**

# Delivering results 1H23

# 1H23 results demonstrate a resilient profitable growth story

|  | 1H23 | 1H22 | Change |  |
|---|---|---|---|---|
| **Originations** | $241m | $195m | 23% | ⬆ |
| **Loan book** | $701m | $429m | 63% | ⬆ |
| **Revenue** | $50.1m | $32.2m | 55% | ⬆ |
| **Cost to income ratio** | 29% | 43% | 34% | ⬆ |
| **Cash NPAT** | $2.3m | ($0.1m) | $2.4m | ⬆ |
| **Cash RoE (annualised)** | 8% | n/a | n/a | ⬆ |

# Key points you should know about us

## Financial

Cash NPAT of $2.3m.
Cost to income ratio of 29%.
Unrestricted cash $30m. ✅

Attractive ~10% net interest margin (NIM). Ability to easily adjust rates due to consumer-direct model. ✅

Targeting
Cash Return on Equity >20%. ✅

## Customer value

Customers rate us!
Google & Shopper Approved of 4.7/5 from > 50,000 reviews. ✅

Existing customers return for future loans creating annuity stream - at minimal Customer Acquisition Cost (CAC). ✅

Trans-Tasman appeal with Australia now >50% of loan book. ✅

## Risk management

Quality portfolio.
>40% Homeowners.
3.1% annualised losses.
0.46% 90+ day arrears. ✅

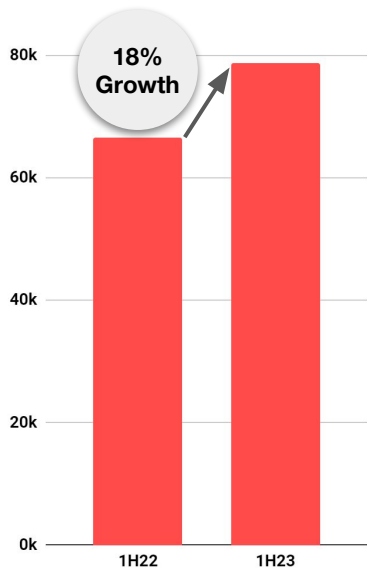Diversified funding from 3 of the "Big 4" Australian banks + securitisation program. ✅

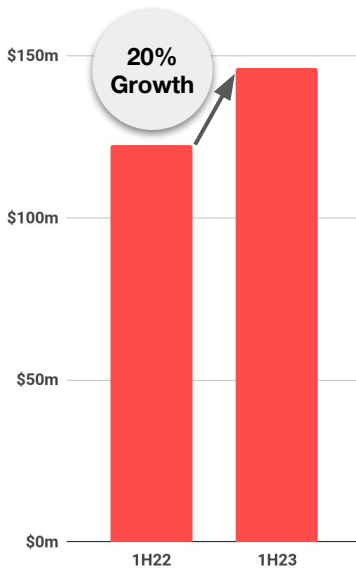75% of borrowings hedged to mitigate impact of interest rate movements. ✅

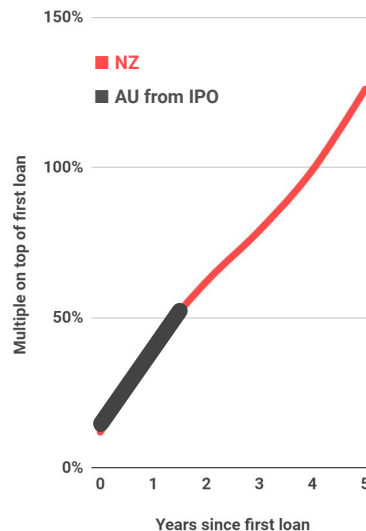# Continuing growth across all key business metrics

## 1. Account acquisition



**18% Growth**

AU expansion powering rapid account growth.

## 2. New customer loans



**20% Growth**

Highly automated Stellare® platform converting more accounts into loans.

## 3. Customer annuity



Subsequent originations ~130% of first loan over 5 yrs, AU replicating NZ in 9x larger market.

# Loan book growth drives scalable profits

## Australian loan book overtakes New Zealand

- Group loan book $701m, up 21% from June 2022.

- Australian loan book $351m, overtaking New Zealand for the first time in like for like currency.

- Loan book growth drives 55% revenue growth on 1H21.

- Data driven, consumer-direct model delivered 36% reduction in customer acquisition costs and scalability of Stellare® platform reduced cost to income from 43% to 29%.

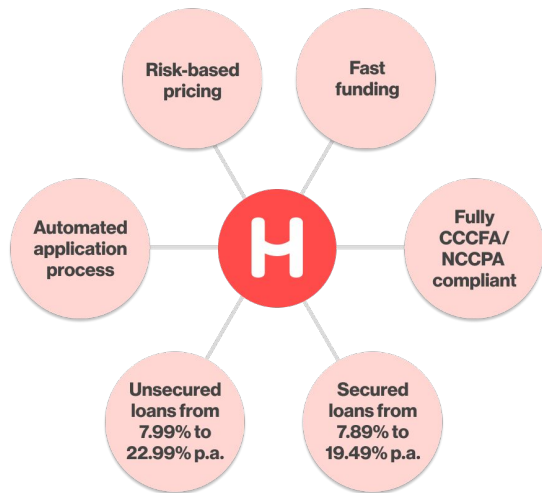- Delivering $2.3m Cash NPAT.

### Group Loan Book

| | Dec-21 | Jun-22 | Dec-22 |
New Zealand    Australia
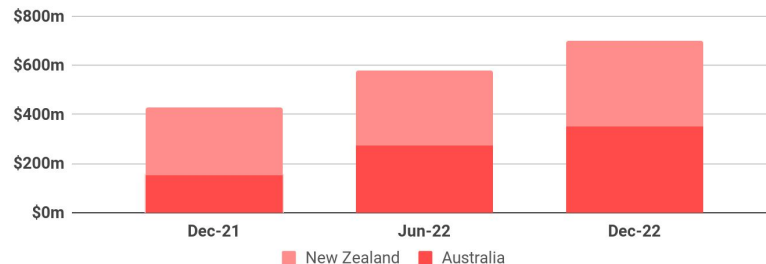
### Group Cash NPAT
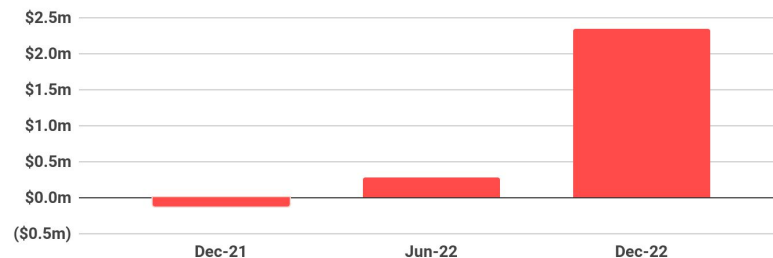
# Overview of business model

# Customer value proposition

## Delivering faster, fairer loans through our smart technology



- Risk-based pricing
- Fast funding
- Automated application process
- Fully CCCFA/ NCCPA compliant
- Unsecured loans from 7.99% to 22.99% p.a.
- Secured loans from 7.89% to 19.49% p.a.

- Personalised fixed rates based on customer credit characteristics.
- Loans up to $70,000 with terms of 3, 5 and 7 years.
- Average new loan size ~$22,000.
- Funding within 24 hours.
- One simple upfront loan establishment fee. No other fees.
- Loans fully compliant with consumer lending codes in AU/NZ.

## Use of funds

Renovation Loans

Debt Consolidation

Car Loans

Education Loans
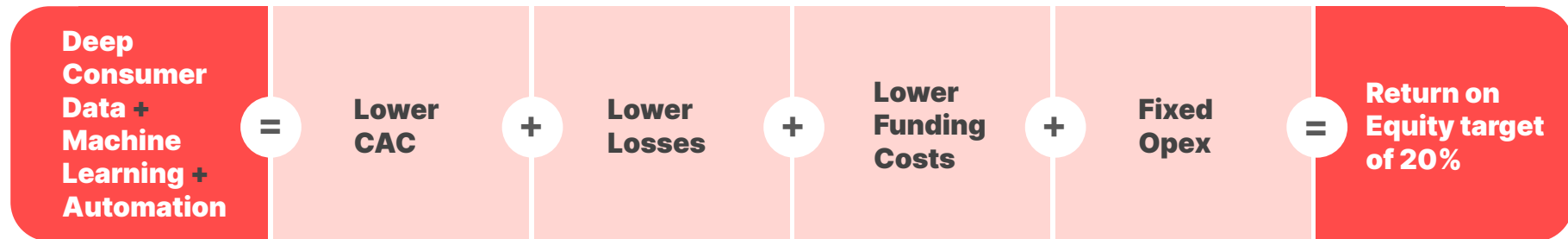
Business Loans

Medical Loans

Travel Loans

Wedding Loans

# Harmoney's strategy: 100% consumer-direct

**Deep Consumer Data + Machine Learning + Automation**  =  **Lower CAC**  +  **Lower Losses**  +  **Lower Funding Costs**  +  **Fixed Opex**  =  **Return on Equity target of 20%**

# Growth opportunities of consumer-direct model

**Unsecured personal loan**  →  **Secured car loan**  →  **Other financial products**
(e.g. line of credit, credit cards, home loans)

# Data + ML + Automation



Deep Consumer Data + Machine Learning + Automation = Lower CAC + Lower Losses + Lower Funding Costs + Fixed Opex = Return on Equity target of 20%
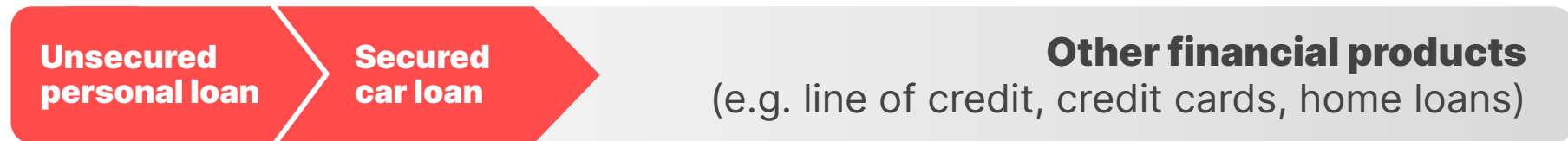
**Every month, over 12,000 new customer accounts help us train our machine learning and automation**

2021
FINANCIAL REVIEW BOSS
MOST INNOVATIVE COMPANIES
STELLARE

High volumes of up-to-the-moment consumer financial data – combined with our 8+ years of historic data – "supercharges" training of our machine learning models, helping us optimise for:

- Highly efficient marketing with Google producing high volumes of desirable customers at low cost.
- Risk Adjusted Income % of ~7% through more accurate assessment of customers.

Quality, first-party, consumer-direct data to fuel machine learning has been a core feature of Harmoney since our inception.

# The Harmoney business model maximises customer lifetime value

## Right customer

- Build reliable target customer model through machine learning and high quality first-party consumer data.

- Partner with large-scale platforms (e.g. Google, Microsoft Ads, Facebook) to implement cost-effective customer acquisition channels.

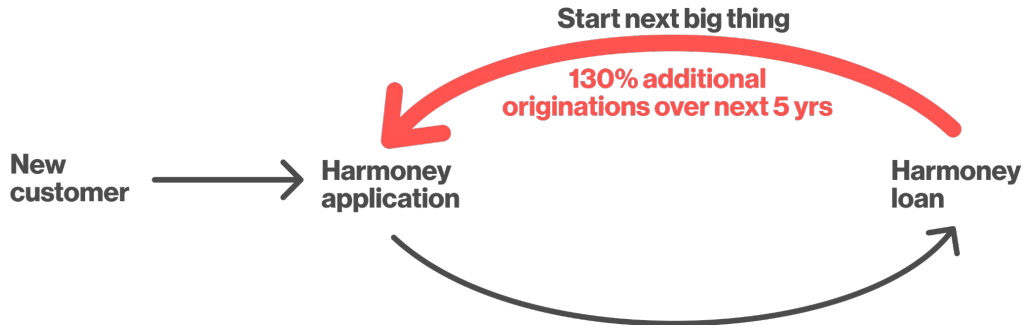- Use direct relationship and customer segment fit to devise and offer new products and services.

★★★★★

**Google** **SHOPPER APPROVED**

**4.7/5 overall rating** **>50,000 reviews**

## Great experience

- First-class customer experience creates annuity revenue as customers return with minimal customer acquisition cost (CAC).

- Highly automated simple and streamlined 100% online process.

## Massive scale

- Exploit tech to build scale, speed, and automation to decouple costs from growth.

**Start next big thing**

**130% additional originations over next 5 yrs**

New customer → Harmoney application → Harmoney loan

# Financial results

# Key performance indicators

| | 1H23 | 1H22 | | Change |
|---|---|---|---|---|
| **Loan book** | $701m | $429m | ⬆ | 63% |
| **Revenue** | $50.1m | $32.2m | ⬆ | 55% |
| **Net interest income %** (1H22 a high point) | 9.8% | 13.0% | ⬇ | (25%) |
| **Risk adjusted income %** (1H22 a high point) | 6.7% | 10.9% | ⬇ | (39%) |
| **Acquisition costs** | $6.5m | $10.1m | ⬆ | 36% |
| **Cost to income ratio** | 29% | 43% | ⬆ | 34% |
| **Statutory NPAT** | $(3.4m) | $(4.8m) | ⬆ | 30% |
| **Cash NPAT** | $2.3m | $(0.1m) | ⬆ | $2.4m |
| **Cash RoE (annualised)** | 8% | n/a | ⬆ | n/a |

# Australian book growth powers revenue growth

## Revenue growth 55% on pcp

- Revenue of $50m, up 55% on pcp, powered by 63% pcp loan book growth.

- Average interest rate 15.4%, down from 16.6% pcp on loan book weighting towards lower rate calendar year 2021 originations.

- 1H23 marks a low point for the average interest rate, this lifts in future periods as the rate increases passed through from calendar year 2022 become a larger portion of the loan book.

## Group revenue growth

55% Growth

$60m

$40m

$20m

$0m

1H22          1H23
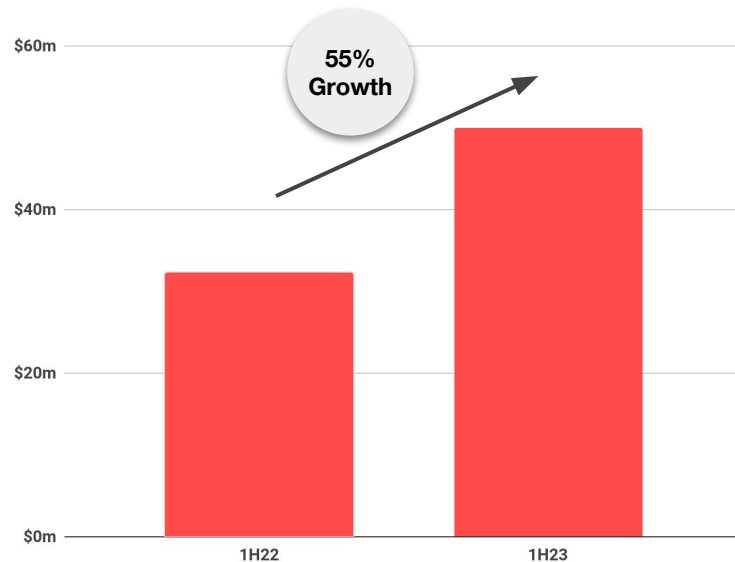
# Consumer-direct model and data delivers lower CAC

## Acquisition costs reduce 36% on pcp

- Acquisition model delivered 23% origination growth on pcp with $3.6m (36%) reduction in Customer Acquisition Costs (CAC). Prior year spend levels "one-off" to launch Australian algorithm training.

- Stellare® applies continuous machine learning to deep consumer data to focus on desirable, high intent customers, lowering marketing costs.

- Customers enjoy their experience, as shown by exceptional Google and NPS ratings, and return next time they want help to start something new. Unlike other models, our direct relationship means subsequent loans have minimal CAC.

## CAC % to originations



Legend: Australia, New Zealand
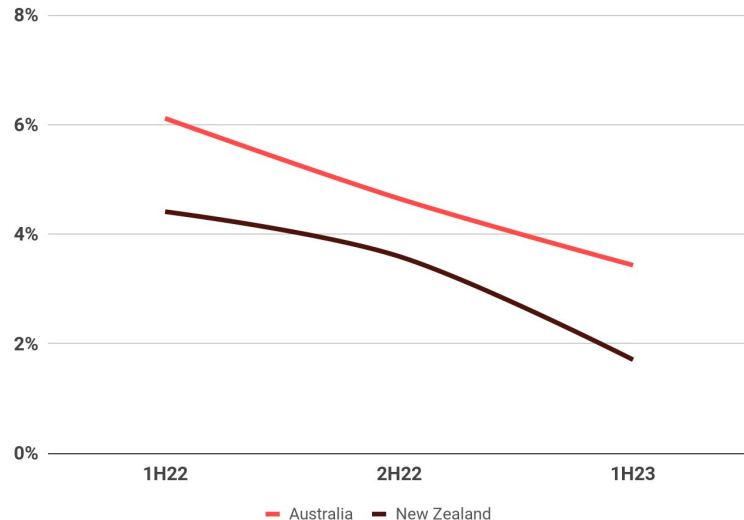
# Deep data and machine learning deliver prime loan book
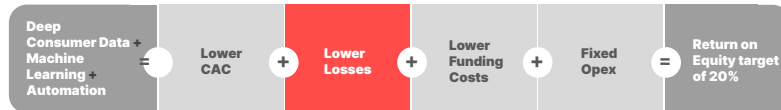
## Target Risk Adjusted Income % (after losses) ~7%

- Convenient online consumer-direct model provides deep data, powering machine learning and automation to deliver resilient prime borrowers at scale.

- Loan book comprised of more than 40% homeowners, 73% employed in either professional, office or trades roles and 86% aged 30+.

- 1H23 credit losses 3.1% and 90+ day arrears at 31 December 2022 0.46%.

## Credit losses



## Low 90+ day arrears



FY23    FY22    AU Mkt. Avg. FY23*
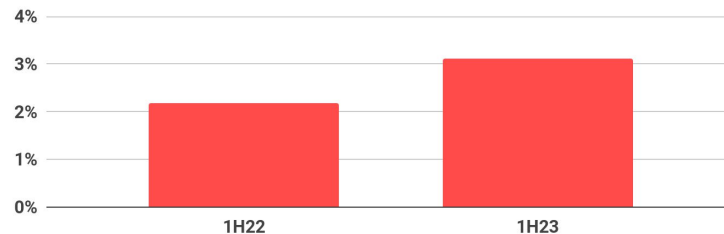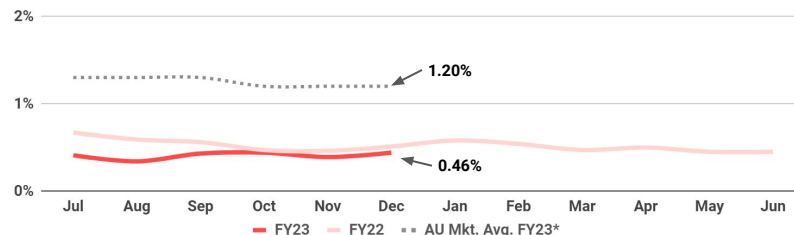
*Source: Equifax Australian Consumer Credit Demand Index 2022 Q4, Personal Loan series.
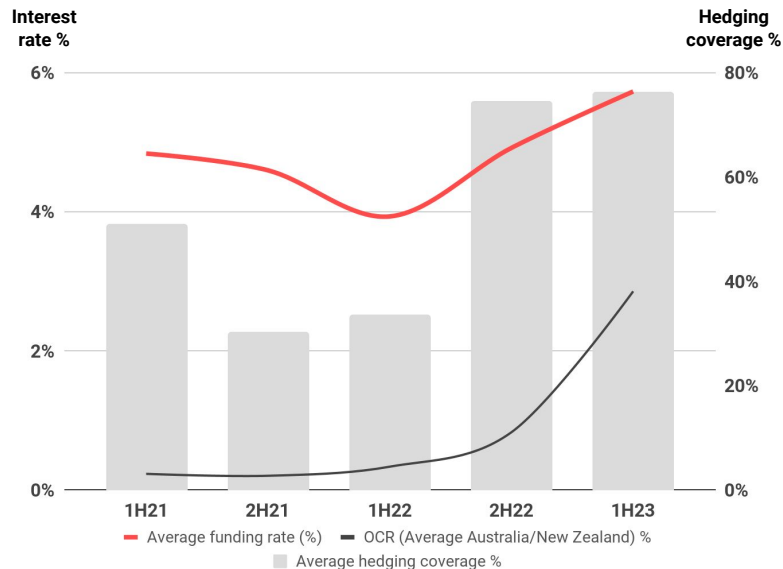
# Diversified funding and hedging program lower risk



## Funding from 3 of the "Big 4" banks

- Exceptionally low 1H22 funding rate with low OCR and hedging. Floating rate borrowings now 75% hedged, focused on achieving ~10% net interest margin.

- Capital efficient with borrowings 94% of loan book (incl. restricted cash).

- Warehouse unused capacity $220m at 31 December 2022.

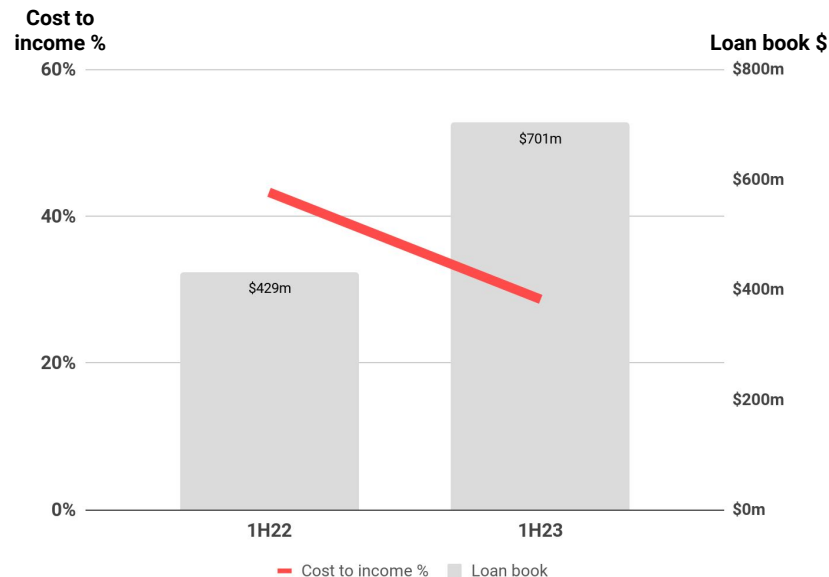- Unrestricted cash $30m at 31 December 2022.

## Average funding rate



Interest rate %

Hedging coverage %

- Average funding rate (%)
- OCR (Average Australia/New Zealand) %
- Average hedging coverage %

# Stellare® automation powers scalability


Deep Consumer Data + Machine Learning + Automation = Lower CAC + Lower Losses + Lower Funding Costs + Fixed Opex = Return on Equity target of 20%

## Scalability drives profitability

- Highly automated Stellare® platform enables loan book to scale faster than operating expenses, with loan book growing 63% and cost to income falling from 43% to 29%.

- Loan book growth contributes partially to current year revenue growth but delivers multi-year annuity due to consumer-direct model.

- Stellare's® ability to scale underpins delivery of 1H23 $2.3m Cash NPAT, 8% annualised cash return on equity and ability to target 20% cash return on equity.
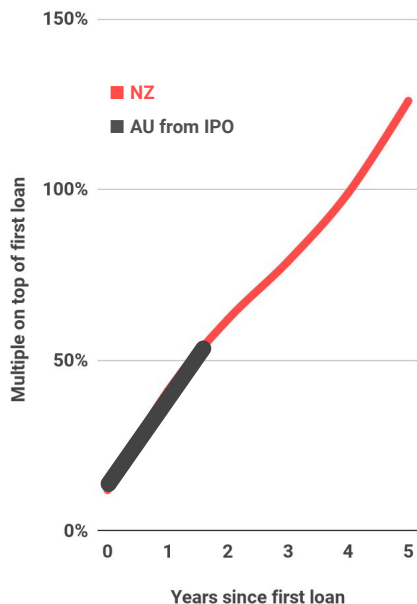
## Cost to income improves 34%



Chart showing Cost to income % and Loan book $ for 1H22 and 1H23. Loan book: 1H22 $429m, 1H23 $701m.

Legend: — Cost to income %    ▢ Loan book

# Strategy and Outlook

# Strategic growth initiative 1: Continue AU expansion

## AU replicating in 9x market



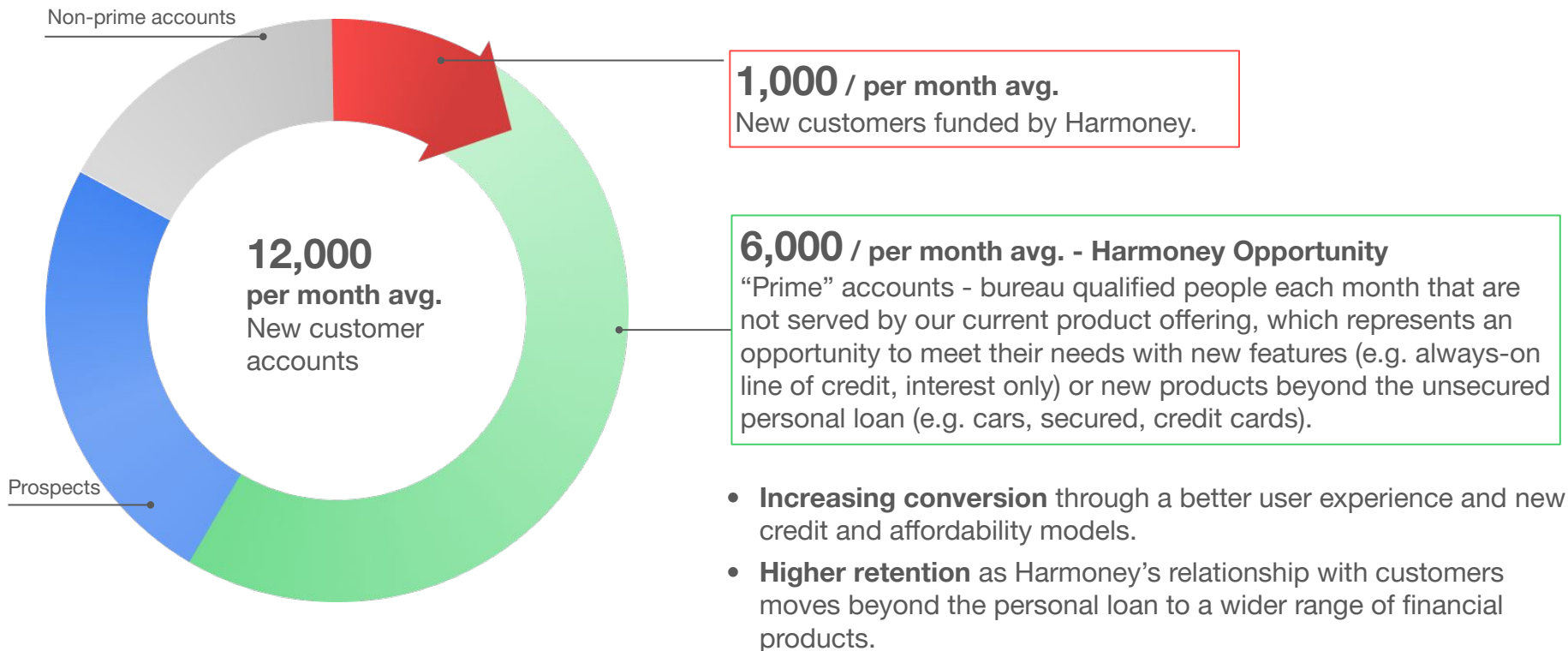## Huge potential for Harmoney in A$143bn market[1]

- Stable market and an enormous growth opportunity for Harmoney as consumers gravitate online, with the vast majority of personal lending still provided by banks and traditional lenders.

- Harmoney's Australian new customer lending grew 49% to $106m. Australia is mirroring New Zealand performance and is on track for these new customers to add ~130% in repeat lending over the next five years, at minimal CAC.
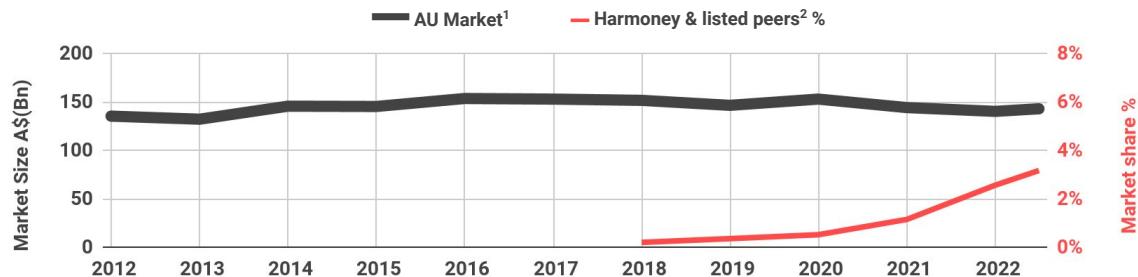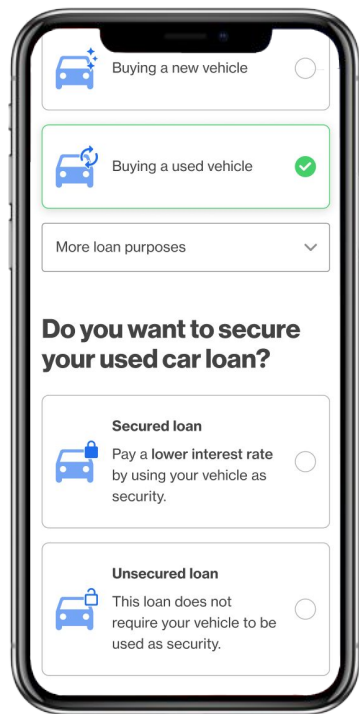


1. Source RBA, 'D2 Lending And Credit Aggregates - Credit; Other personal', which covers all personal credit (non-business, non-housing/mortgage), incl. e.g. personal loans, car loans and credit cards.

2. Listed personal lending peers comprise Wisr, MoneyMe & Plenti with loan balances sourced from their latest market trading updates.

# Strategic growth initiative 2: Expand product offering

Non-prime accounts

Prospects

**12,000**
**per month avg.**
New customer
accounts

**1,000** / **per month avg.**
New customers funded by Harmoney.

**6,000** / **per month avg. - Harmoney Opportunity**
"Prime" accounts - bureau qualified people each month that are not served by our current product offering, which represents an opportunity to meet their needs with new features (e.g. always-on line of credit, interest only) or new products beyond the unsecured personal loan (e.g. cars, secured, credit cards).

- **Increasing conversion** through a better user experience and new credit and affordability models.
- **Higher retention** as Harmoney's relationship with customers moves beyond the personal loan to a wider range of financial products.
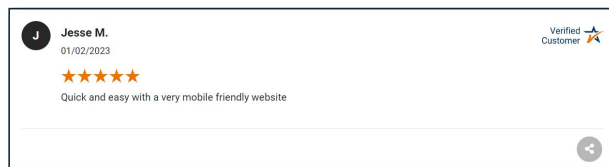
# Expanding product offering - Car loan



- **Car market:** Large market across Australia and New Zealand, not historically a focus for Harmoney's unsecured loan offering, where interest rates are typically higher than secured loans.

- **Product:** Harmoney's disruptive car loan empowers customers with cash buyer confidence to buy privately or at the dealership, so they are not reliant on dealership finance options. Once customers drawdown the funds they have 60 days to provide Harmoney the car registration and certificate of insurance to keep the lower secured interest rate, if this isn't provided the interest rate reverts back to the higher unsecured loan rate.

- **Channel:** Stellare® data driven algorithms now training to include high intent car buyers in online marketing audience.

- **Progress:** Stellare® marketing commenced in late January and early results indicate that customers are finding this disruptive car loan model attractive.
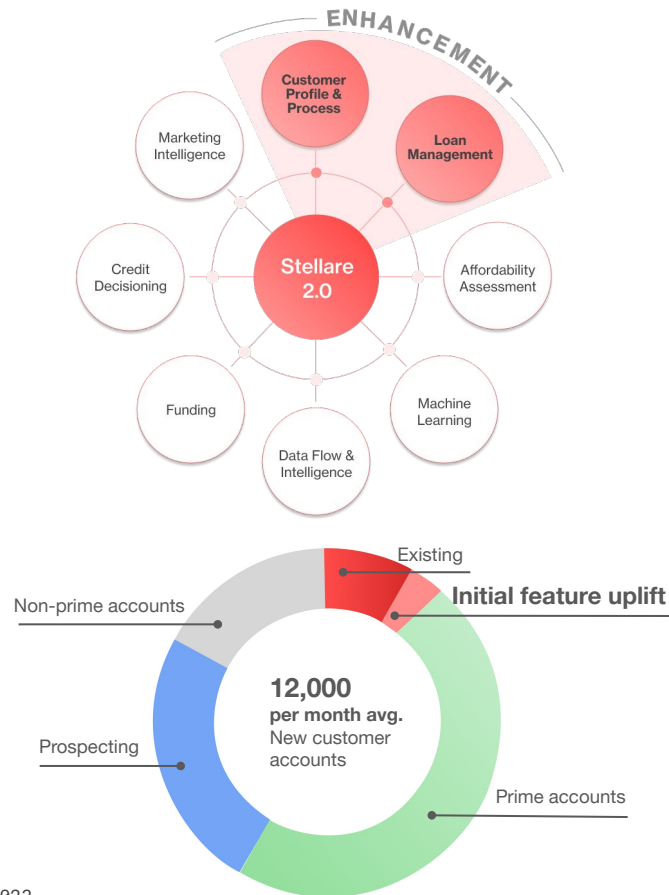
**Disrupting the car finance experience**

# Expanding product offering - Enhanced flexibility

- Stellare 2.0 is the next evolution of our proprietary software platform, providing expanded technical and product capability.

- This enhancement will reduce the time to market for innovative financial products, operating alongside our deep consumer data, machine learning algorithms and sophisticated credit scoring models to provide a new experience and a wider offering to customers.

- Targeting launch July - Sept. 2023 delivering higher conversion, serving more customers, e.g. an initial feature will approve more customers in the $2k - $15k enquiry range, which Stellare 1.0 is not calibrated towards.

- Higher conversion into loans has a 130% multiplier effect as those customers later return for future borrowing needs with minimal customer acquisition cost due to Harmoney's consumer-direct business model.



ENHANCEMENT

Customer Profile & Process
Loan Management
Marketing Intelligence
Stellare 2.0
Credit Decisioning
Affordability Assessment
Funding
Machine Learning
Data Flow & Intelligence



Existing
Initial feature uplift
Non-prime accounts
12,000 per month avg. New customer accounts
Prospecting
Prime accounts

# Outlook

**Interest rates and pricing response**

- Ability to pass through targeted interest rate increases to maintain enviable ~10% net interest margin with highly diversified loan book.

- Funding costs managed with a diversified funding panel and 75% of borrowings hedged.

**Asset quality**

- High quality diversified loan book >40% home ownership, low arrears rate.

**Growth expected to remain strong due to large TAM**

- Harmoney consumer-direct model is taking market share from banks, plenty of room to grow in $143bn market.

- Harmoney targeting a 20% ROE (Cash NPAT/Equity) in the medium term.

**FY23 outlook**

| | |
|---|---|
| Origination growth | ✓ |
| Loan book growth | ✓ |
| Net Interest Margin ~10% | ✓ |
| Cash NPAT growth | ✓ |

# Appendix

# $701m Loan Book



**Loan purpose**
- Debt consolidation - 32%
- Home improvements - 19%
- Life events - 14%
- Recreation - 12%
- Vehicle - 11%
- Other - 12%

**Region**
- Australia - NSW/ACT - 15%
- Australia - QLD - 13%
- Australia - VIC - 11%
- Australia - Other - 11%
- NZ - Auckland - 18%
- NZ - North Island (ex. Akl) - 21%
- NZ - South Island - 11%

**Employment status**
- Office - 35%
- Trade - 19%
- Professional - 19%
- Others - 17%
- Self-Employed - 5%
- Unskilled - 4%
- Home - 1%

## Residential Status
- Home Owner
- Renting
- Living with Parents
- Boarding
- Other
- Supplied by Employer

(0% – 50%)

## Age of Customers
- 70+
- 60 - 69
- 50 - 59
- 40 - 49
- 30 - 39
- 20 - 29
- 18 - 19

(0% – 30%)

# Profit and loss

| | 6 Months ended 31 December 2022 $'000 | 6 Months ended 31 December 2021 $'000 | Year ended 30 June 2022 $'000 | Year ended 30 June 2021 $'000 |
|---|---|---|---|---|
| Interest income | 49,526 | 29,814 | 68,943 | 35,153 |
| Other income | 549 | 2,425 | 3,877 | 1,311 |
| **Total income** | **50,075** | **32,239** | **72,820** | **36,464** |
| Interest expense | 17,957 | 6,440 | 18,122 | 9,004 |
| Incurred credit losses | 10,027 | 3,900 | 10,611 | 4,472 |
| **Risk adjusted income** | **22,091** | **21,899** | **44,087** | **22,988** |
| Movement in expected credit loss provision | 4,587 | 2,625 | 14,856 | 7,756 |
| **Risk adjusted income after expected credit loss provision** | **17,504** | **19,274** | **29,231** | **15,232** |
| Customer acquisition expenses | 6,539 | 10,147 | 20,716 | 15,427 |
| **Net operating income** | **10,965** | **9,127** | **8,515** | **(195)** |
| Personnel expenses | 5,512 | 4,847 | 9,809 | 8,561 |
| Share based payment expenses | - | 1,396 | 2,744 | 3,828 |
| Customer servicing expenses | 3,084 | 2,273 | 5,166 | 3,748 |
| Technology expenses | 2,434 | 1,924 | 4,179 | 3,033 |
| General and administrative expenses | 2,179 | 2,822 | 4,042 | 7,233 |
| Depreciation and amortisation expenses | 1,139 | 679 | 1,349 | 976 |
| **Operating expenses** | **14,348** | **13,941** | **27,289** | **27,379** |
| **Profit / (Loss) before income tax** | **(3,383)** | **(4,814)** | **(18,774)** | **(27,574)** |
| Income tax (expense) / benefit | - | - | - | 2,143 |
| **Profit / (Loss) after income tax** | **(3,383)** | **(4,814)** | **(18,774)** | **(25,431)** |
| *Non-cash adjustments** | | | | |
| Movement in expected credit loss provision | 4,587 | 2,625 | 14,856 | 7,756 |
| Share based payment expenses | - | 1,396 | 2,744 | 3,828 |
| Depreciation and amortisation expenses | 1,139 | 679 | 1,349 | 976 |
| Borrower establishment fee rebate | - | - | - | 3,758 |
| IPO Expenses | - | - | - | 2,987 |
| **Cash NPAT** | **2,343** | **(114)** | **175** | **(6,126)** |

# Key operating and financial metrics

| | 6 Months ended 31 December 2022 | 6 Months ended 31 December 2021 | Change % | | Year ended 30 June 2022 | Year ended 30 June 2021 |
|---|---|---|---|---|---|---|
| **Loan book value and growth** | | | | | | |
| Total originations ($'000) | 240,536 | 195,123 | 23% | | 442,540 | 238,738 |
| New customer originations ($'000) | 146,170 | 122,300 | 20% | | 283,607 | 127,474 |
| Existing customer originations ($'000) | 94,366 | 72,823 | 30% | | 158,933 | 111,265 |
| Loan book (period end) ($'000) | 701,035 | 429,194 | 63% | | 580,971 | 288,820 |
| Loan book (average) ($'000) | 643,371 | 358,277 | 80% | | 432,501 | 199,286 |
| Average interest rate (%) | 15.4% | 16.6% | (120bps) | | 15.9% | 17.6% |
| Average funding rate (%) | 5.7% | 3.9% | (180bps) | | 4.5% | 4.7% |
| Net interest income (%) | 9.8% | 13.0% | (320bps) | | 11.8% | 13.1% |
| Risk adjusted income (%) | 6.7% | 10.9% | (420bps) | | 9.3% | 10.9% |
| | | | | | | |
| **Loan book quality** | | | | | | |
| Incurred credit loss ($'000) | 10,027 | 3,900 | (157%) | | 10,611 | 4,472 |
| Incurred credit loss to average gross loans (%) | 3.1% | 2.2% | (90bps) | | 2.5% | 2.2% |
| Provision rate (%) | 4.8% | 3.9% | (90bps) | | 4.9% | 4.9% |
| | | | | | | |
| **Productivity metrics** | | | | | | |
| Customer acquisition to origination ratio | 2.7% | 5.2% | 2.5% | | 4.7% | 5.9% |
| Costs to income ratio | 28.7% | 43.2% | 34% | | 37% | 75% |

# Cash Flow

| | 6 Months ended 31 December 2022 $'000 | 6 Months ended 31 December 2021 $'000 | Year ended 30 June 2022 $'000 | Year ended 30 June 2021 $'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest received | 48,131 | 30,099 | 68,969 | 35,684 |
| Interest paid | (17,359) | (6,666) | (17,233) | (9,604) |
| Fee income (rebated) / received | (797) | (1,754) | (2,151) | 4,972 |
| Payments to suppliers and employees | (20,617) | (21,498) | (44,612) | (32,981) |
| **Net cash generated / (used in) by operating activities** | **9,358** | **181** | **4,972** | **(1,929)** |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Net advances to customers | (119,376) | (142,575) | (312,612) | (167,702) |
| Payments for software intangibles and equipment | (2,417) | (2,685) | (6,284) | (3,462) |
| **Net cash used in investing activities** | **(121,793)** | **(145,260)** | **(318,897)** | **(171,164)** |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Net proceeds from finance receivables borrowings | 105,586 | 116,688 | 285,804 | 158,392 |
| Net proceeds from / (repayment of) debt financing | 5,000 | 10,000 | 15,000 | (10,000) |
| Net proceeds from share issue, net of transaction costs | - | - | - | 64,253 |
| Principal element of lease payments | (254) | (507) | (828) | (905) |
| **Net cash generated by financing activities** | **110,332** | **126,181** | **299,976** | **211,741** |
| | | | | |
| Cash and cash equivalents at the beginning of the period | 56,805 | 71,122 | 71,122 | 32,491 |
| **Net (decrease) / increase in cash and cash equivalents** | **(2,103)** | **(18,898)** | **(13,948)** | **38,648** |
| Effects of exchange rate changes on cash and cash equivalents | 1,184 | 399 | (370) | (16) |
| **Cash and cash equivalents at the end of the period** | **55,886** | **52,623** | **56,805** | **71,122** |

# Balance Sheet

| | 31 December 2022 $'000 | 31 December 2021 $'000 | | 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 55,886 | 52,623 | | 56,805 | 71,122 |
| Trade and other assets | 2,495 | 2,484 | | 1,665 | 1,762 |
| Finance Receivables | 701,712 | 428,639 | | 580,309 | 288,526 |
| Expected credit loss provision | (33,840) | (17,092) | | (28,862) | (14,301) |
| Property and equipment | 148 | 246 | | 352 | 598 |
| Intangible assets | 10,354 | 5,570 | | 8,524 | 3,213 |
| Deferred tax assets | 7,868 | 10,798 | | 8,269 | 10,687 |
| Derivative financial instruments | 9,740 | 210 | | 7,848 | - |
| **Total assets** | **754,363** | **483,478** | | **634,910** | **361,607** |
| | | | | | |
| Payables and accruals | 6,918 | 8,582 | | 6,198 | 6,813 |
| Borrowings | 686,091 | 399,372 | | 564,211 | 271,174 |
| Provisions | 3,667 | 7,982 | | 5,160 | 12,469 |
| Lease liability | - | 152 | | 216 | 667 |
| Derivative financial instruments | - | - | | - | 79 |
| **Total liabilities** | **696,676** | **416,088** | | **575,785** | **291,202** |
| | | | | | |
| **Net assets** | **57,687** | **67,389** | | **59,125** | **70,405** |
| | | | | | |
| Share capital | 123,985 | 123,265 | | 123,265 | 123,112 |
| Foreign currency translation reserve | 1 | 115 | | (1,329) | (101) |
| Share based payment reserve | 1,688 | 1,357 | | 3,146 | 217 |
| Cash flow hedge reserve | 6,914 | 210 | | 5,561 | (79) |
| Accumulated losses | (74,901) | (57,558) | | (71,518) | (52,744) |
| **Equity** | **57,687** | **67,389** | | **59,125** | **70,405** |