

ASX Announcement

27 April 2023

## Pepper Money Limited (ASX:PPM) Annual General Meeting - Chair and CEO Address

Attached is the text of the following addresses to be delivered at the Company's Annual General Meeting being held today:

- Address from the Chair, Mr Michael Culhane; and
- Address from the CEO, Mr Mario Rehayem.

This announcement has been authorised for release by the Company Secretary.

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### 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.peppermoney.com.au>

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The logo for Peppermoney, featuring the word "peppermoney" in a white, lowercase, sans-serif font. The text is set against a red background that has a curved, wavy bottom edge. A thin green line follows the curve of the red background.

**Pepper Money Limited**

ANNUAL GENERAL MEETING

Chair and CEO Addresses

Thursday 27 April 2023

## **Chair's address to shareholders**

I am exceptionally proud of how Pepper Money continues to navigate the market complexities and volatility seen over 2022 to deliver on our mission to help people succeed. Despite the market slowdown seen over the second half of 2022, given macro-economic conditions, our strategy to drive volume in the first half, saw the Company deliver record Originations of \$9.2 billion for the full year.

The underlying performance of the Company remained strong throughout the year and we delivered Pro-forma Net profit after tax of \$142.0 million which was up from the \$141.9 million delivered in calendar year 2021. Statutory NPAT increased 8% year on year to \$140.5 million.

Given the strength of these results your Board was pleased to announce a final dividend to shareholders of 5.1 cents per share. Combined with the interim dividend announced in August 2022, Pepper Money delivered total dividends of 10.5 cents per share for the calendar year 2022 representing a dividend yield of 6.3% annualised.

During 2022 we continued to demonstrate our strong track record in accessing debt capital markets raising over \$5 billion from our four public securitisation issuances. The market recognised our efforts by awarding Pepper Money the prestigious KangaNews Australian Nonbank Financial Institution Issuer of the year.

In 2022 we continued to enhance our digital offering with the launch of our new retail customer site [mypeppermoney](https://mypeppermoney.com). Our purpose-built technology platforms for both Asset Finance, Mortgages and Customer Operations support our customers through their loan journey, efficiently integrate with our partner' customer management systems and drive our operational scale and efficiency.

Our approach to sustainability aligns with our mission: to help people succeed. Our commitment to sustainability is instilled through everything we do; from our interactions with customers and employees, through to our environmental impact on the local communities around us.

Good corporate governance and responsible lending underpin our ability to manage sustainability risks and opportunities.

During 2022 Pepper Money issued our first Social Bond and our Second Green Bond as part of our funding transactions. We continue to demonstrate our commitment to the environment through our leading position in electric vehicle financing and to support our customers transition to electric vehicles we gave them a period of complementary access to Evie Network's fast charging network.

Our focus on our communities continued over calendar year 2022 through the Pepper "Shout Out" Awards which recognised and helped further the efforts of people making a real-life difference to others across Australia. This campaign included Pepper Money providing special equipment for a gym for people with disabilities, supported wildlife sanctuaries and helped with the distribution of food and supplies into communities. Over 300 nominations were received, and 58 awards given out to people nominated by others in their community.

Diversity and inclusion have always been part of Pepper Money's DNA and I am proud of how our D&I strategy is supported by our guiding principles of Allyship, Celebrate and Educate, or ACE.

Our inclusiveness and diversity show through in our employee profile. As at 31 December 2022 our team was 55% female, 45% male, with 41% of our Senior Managers being female – compared to 38% for the Financial Services and Insurance sector in Australia.

I am particularly proud by how engaged our employees remain – with over 90% of our people participating in our annual Employee Engagement Survey – and the Company received a score of 78 placing us in the top 10% of companies globally.

The start to 2023 has again brought market challenges. Pepper Money continues to demonstrate its resilience and agility through the ability of the business to adapt and grow through all parts of the cycle. As we look to calendar year 2023, I believe Pepper Money has never been better placed to help more customers to succeed and to continue to capitalise on the scale benefits that our investment in data and technology bring to our platform. Our continuous investment in this area sets us up for future innovation and growth potential that we believe will keep us at the forefront of our industry.

I would like to take this opportunity to thank my fellow directors for their support over the last twelve months. As a Board we believe that we have a good mix of skills and experience to set the strategy for the business, and to assist management to deliver on that strategy.

As you know from our Notice of Meeting, two of our Directors are standing for election today, Akiko Jackson and Rob Verlander. I will ask each of them to say a few words when we come to the formal part of the meeting.

I would like to thank Mario, his Executive team and all of our employees across Australia, New Zealand and the Philippines who have contributed to the success that the Company has achieved over the last 12 months.

Finally, I would also like to thank you our shareholders, for investing in Pepper Money. We appreciate your support and looking forward to delivering on our strategy.

I will now hand over to Mario Rehayem, CEO, to give his address.

## 1. CEO's address to shareholders

Thank you Mike, and good afternoon to everyone joining us today.

Today I will touch on Pepper Money's strong performance across key metrics in 2022 and the team's delivery of our results.

We entered 2022 with a strong focus on driving volume to support AUM growth, as we expected that macro-economic condition and interest rate increases would see the market slow down over second half of the year. It was this strategy – to deliver a fast start in the first half – that supported the business when markets materially softened over the second half of the year.

In the first half, we delivered above systems growth with Lending AUM at 30 June 2022 of \$18.3 billion: Mortgage AUM increasing by 24% on the first half of CY2021 to \$14.0 billion and Asset Finance AUM increasing 43% over the same period to a record \$4.3 billion. Originations closed the first half of 2022 at \$5.6 billion in total – a growth of 53% on the first six months of 2021.

The second half of the year saw significant softening in the markets in which we operate – particularly Mortgages – as eight consecutive interest rate increases by the RBA from May to December 2022 lifted the official cash rate in Australia from 10 bps to 310bps.

The impact of these rapid rate rises, coupled with ongoing inflationary pressures and a notable deterioration in consumer sentiment, all contributed to a marked slow-down in the property market and a cooling in property prices. By year end, the Australian residential property market, excluding refinancing, had declined and Corelogic reported that overall, house prices had fallen (5)% across Australia year on year.

As the housing market softened, we saw competition for share of market amongst the major banks intensify – with heavily discounting of prime lending rates and substantial cash back offers. At the same time, capital markets were experiencing volatile conditions, which impacted funding margins for non-deposit lenders.

Entering the second half of 2022, given the breadth of our product offerings, and the depth of our capability in pricing for risk, we shifted our business focus away from low yielding prime residential mortgages to our higher yielding Non-conforming Mortgages, Commercial Real Estate and our Asset Finance portfolio. This resulted in the mix of our Mortgage Originations shifting in the second half of 2022 to 47% Prime and 53% Non-conforming compared to 58% Prime and 42% Non-conforming in the second half of 2021.

While Originations were down in the second half, most notably in our Mortgage business, we added an additional \$4.0 billion to our first half results to close the full year at the highest reported Originations of \$9.6 billion, a growth of 14% on 2021. Mortgages closed 2022 with Originations of \$6.8 billion, up 7% on PCP, and Asset Finance grew Originations by an impressive 35% to \$2.8 billion. Lending AUM closed the year strong at \$18.2 billion, up 15% on PCP and Total AUM at \$19.2 billion grew 13% on 2021.

This record achievement in Originations and AUM saw Pepper Money outpace the market in terms of growth for the full year with Mortgages growing 2 times system and our Asset Finance business delivering 35 times system.

For our customers and our partners, we strive to make the complex simple. Our credit decision consistency & turnaround times remain at the forefront of the market. We achieve this through our continued investment in our in-house, purpose-built technology, and how we leverage the data and insights we have built since business inception. The consistency in how we approach technology – by reinvesting the same levels year on year – sees not just our productivity improve – but demonstrates the business’s strong capital discipline and ensures minimal change to depreciation charges.

We continued to build and strengthen our distribution footprint, with total Accredited Mortgage brokers, across Australia and New Zealand, increasing to 20,561 and Accredited partners and introducers in Asset Finance growing to 1,996.

Our mission to “help customers succeed” saw 77,214 new customers on boarded over 2022, and we have now helped over 366,000 customers since 2004.

Pepper Money’s strong track record in accessing debt capital markets and the strength of our long-standing funder and investor relationships developed over the past two decades, really shows through when market conditions are challenging – which was what was seen in 2022:

- we welcomed 4 new investors
- we increased our warehouse capacity to \$11.3 billion, up 14% on December 2021.
- we successfully executed 7 public securitisations over the year - raising more than \$5 billion in total.
- we also raised \$1.8 billion through private term deals; and
- we have had a **strong start to 2023** – having already executed PRS35 in March for \$1 billion.

Despite the challenging market conditions, we delivered Pro-forma NPAT of \$142.0 million in line with our record delivery in 2021, with Statutory Profit for 2022 growing 8% year on year to \$140.5 million.

Pepper Money is now entering its 23rd year of business, and year on year we have been able to deliver disciplined growth – whether it be volume, customer, distribution footprint, or profitability.

There is little doubt that 2023 is likely to see the current challenging market conditions continue, particularly in short term.

While the Reserve Bank paused interest rate rises in April, the Cash Rate has already increased a further 50bp in this year, and the OCR now stands at 3.60%, compared to 0.10% just 12 months ago. Customers have now experienced 10 rate hikes since May last year, and market consensus is converging on the RBA increasing rates by a further 25bps next month.

The combination of rising rates, high inflation and consumer uncertainty has impacted the overall market for Mortgages. Over the last 12 months to March 2023 Equifax data shows that Mortgage Credit Enquiries have declined (15)%.

As interest rates rose, bank competition intensified and given funding cost volatility, we took the conscious decision over the second half of 2022 to slow down new applications and to shift focus to our non-conforming segment. So, while this has seen our Mortgage application volume decline, we have importantly maintained our Mortgages AUM, closing March 2023 at \$13 billion in total.

Before moving to Asset Finance – I would note that over March 2023 we started to see an increase in Mortgage enquires, and alongside this our application volume is starting to increase as well.

The story has been different in Asset Finance. While the market has slowed – the rate of decline has been significantly lower than in Mortgages, with Enquires only down (5)% for the year to March.

The strength of our Asset Finance business is defined through our breadth of distribution, the ease of doing business with us given our purpose-built technology, and our position in EV and Novated leasing – has seen our Applications grow +19% for the year to March. And I am extremely proud to say we have now achieved over \$5 billion in AUM for Asset Finance as at 31 March 2023.

The ability to manage performance through capitalising on different trends in Mortgages and Asset Finance markets shows the benefit having a balanced business portfolio.

As ever, I am confident Pepper Money will continue to differentiate itself through its portfolio diversity, quality of assets, operational scale & efficiency underpinned by our core competencies of credit, funding, distribution and digitally enabled data. This positions us well to continue to manage through the cycle.

Thank you and I will now pass back to our Chair Mike Culhane.