

ASX Announcement
 23 August 2023

Pepper Money 1H 2023 Results – record Asset Finance growth; resilient AUM in challenging market conditions

Result Overview

- **1H 2023 Originations** of \$3.5 billion (2H 2022: \$4.0 billion, 1H 2022 (PCP)¹: \$5.6 billion) reflecting strong Asset Finance growth, challenging market conditions in Mortgages:
 - **Strong Asset Finance Originations** achieved record in Originations of \$1.8 billion in 1H 2023 up 37% on 2H 2022 and up 19% on 1H 2022.
 - **Mortgage Originations** of \$1.7 billion in the first half were (36)% below 2H 2022 and (58)% versus PCP.
- **Total AUM** at 30 June 2023 of \$18.9 billion was broadly in-line with 31 December 2022 (\$19.2 billion).
- **Lending AUM** of \$18.0 billion was (1)% below 31 December 2022:
 - **Asset Finance AUM** grew 19% on December 2022 to close at a record \$5.6 billion.
 - **Mortgage AUM** closed June at \$12.4 billion, (8)% lower than December 2022 close.
- **Total Operating income of \$193.5 million²** down (3)% on the 1H 2022 with a balanced contribution mix:
 - **56% Mortgages** (1H 2022: 62%);
 - **41% Asset Finance** (1H 2022: 36%);
 - **2% Loan & Other servicing** (1H 2022: 3%).
- **Total NIM** of 2.06%: comprised of Mortgages 1.83% and Asset Finance 2.62%.
- **Credit quality preserved: Loan Losses as a percentage of AUM³** at 0.28% increased (2)bps over 2H 2022 and (10)bps over 1H 2022 reflecting increased contribution of Asset Finance to AUM.
- **Well-funded: \$3.1 billion** raised via 4 public securitisations in 1H 2023, up 22% on 1H 2022.
- **Statutory NPAT** of \$52.0 million down (24)% on 2H 2022 and (28)% on 1H 2022.
- **Pro-forma⁴ NPAT** of \$52.0 million down (25)% on 2H 2022 and (29)% on 1H 2022.
- **Fully franked interim dividend** of 3.5 cents per share declared – equating to an **annualised yield of 5.1%**.
- **Well positioned** for future growth with **unrestricted cash** at \$78.8 million at 30 June 2023.

	Half Year Ending			June 2023 vs	
	June 2023	December 2022	June 2022	December 2022	June 2022
Statutory NPAT	\$52.0m	\$68.3m	\$72.2m	(24)%	(28)%
Pro-forma NPAT	\$52.0m	\$68.9m	\$73.1m	(25)%	(29)%
Originations	\$3.5bn	\$4.0bn	\$5.6bn	(12)%	(38)%
Lending AUM	\$18.0bn	\$18.2bn	\$18.3bn	(1)%	(1)%
Total AUM	\$18.9bn	\$19.2bn	\$19.4bn	(1)%	(2)%
Net Interest Margin (NIM)	2.06%	2.11%	2.29%	(5)bps	(23)bps
Total Operating Income	\$193.5m	\$209.7m	\$198.4m	(8)%	(3)%
Pro-forma Cost to Income (CTI) ⁵ (%)	56.1%	48.5%	44.2%	(8)%	(12)%
Interim Dividend (per share)	3.5 cents	5.1 cents	5.4 cents	(31)%	(3)%

Pepper Money Limited (ASX: PPM) today reported its half year results for the six-month period ending 30 June 2023. The Company reported Statutory Net Profit after Tax (NPAT) of \$52.0 million for 1H 2023, down (28)% on PCP and Pro-forma NPAT of \$52.0 million down (29)% on PCP. Lending AUM at 30 June 2023 of \$18.0 billion was only marginally lower than December 2022 close of \$18.2 billion.

Pepper Money CEO, Mario Rehayem said, “*With 12 official cash rate increases since May 2022 there has been a pronounced impact on credit demand in mortgages. The mortgage market has been challenging with intense competitive behaviour as the major banks sought to gain share through cash back offers and other incentives driving higher levels of customer attrition.*”

“*Within this environment we flexed to capitalise on strong opportunities we identified in the auto and equipment market. This has seen the business accelerate growth in our Asset Finance business to offset volume constraints in Mortgages, given the macro-economic conditions and cost of fund volatility. In turn, we have been able to manage AUM which is a key driver of future profitability. The stability of our Assets under Management (AUM) and the quality of our book is a testament to this.*”

“*We continue to maintain our strong track record of disciplined credit risk management. Our 23+ years of experience through multiple economic cycles, and the use of our proprietary data and analytics, sees our 90+ arrears continue to trend below long-term averages. We remain vigilant around loan performance and continue to maintain strong coverage levels with Total Loan Loss provisions at 30 June 2023 of \$130.4 million, including \$15.8 million in post model overlay.*”

“*Building a better, more efficient and scalable business that delivers high rates of productivity, customer satisfaction and distribution partner experience excellence continues to be a key focus. The benefits of our investment in productivity are evident in our Asset Finance business which has achieved a cost per application reduction of 22% CAGR since 1H 2022 whilst delivering applications growth of 15% CAGR⁶.*”

“*We are well positioned to continue to capitalise on growth opportunities having closed four securitisation transactions totalling more than \$3.1 billion in the half – a testament to the strong relationships we have developed over decades with our investors and the performance track record of our book through a number of credit cycles.*”

Lending Assets Under Management (AUM)

Lending AUM at 30 June 2023 was \$18.0 billion, down (1)% on both PCP and on December 2022.

Mortgage AUM of \$12.4 billion was down \$(1.1) billion from the end of CY 2022 as a result of a deliberate slowdown in Mortgage originations, which the Company commenced in 2H 2022 in response to challenging macro-economic conditions, and intense competition among the major banks to gain share.

Asset Finance AUM grew by 32% on the PCP and 19% on 2H 2022 to \$5.6 billion. This growth, supported by Pepper Money's industry leading, purpose-built technology stack – Solana – establishes the Group as a leading non-bank asset finance lender in Australia.

Net Interest Margin (NIM)

Net Interest Margin over the first half of 2023 continued to be impacted by BBSW and swap rate volatility, higher funding costs, and higher customer attrition rates as a result of the intensely competitive environment in Mortgages. In response to these headwinds, the Company undertook some repricing, following Reserve Bank of Australia (RBA) cash rate increases. This resulted in a NIM for 1H 2023 of 2.06%, down (23)bps on PCP. Importantly, total exit NIM at June 2023 was 2.04%, representing a stabilisation in the rate of NIM decline as the Company enters 2H 2023.

Credit quality

Credit quality remains both stable and strong. Whilst higher rates have impacted customers, both 90+ day arrears and loan losses continue to trend below long-term averages. This reflects Pepper Money's long-term approach to risk-based lending to Tier A customers in Asset Finance, and not taking collateral risk within the Mortgage portfolio. For the six months to June 2023, Total Loan Losses as a percentage of AUM⁷ were 0.28% up (2)bps on the previous 6 months. This marginal increase was the result of the growth in the Asset Finance book which originated \$1.8 billion in new loans during the half. Pepper Money remains well provided with Total Loan Loss provisions of \$130.4 million at 30 June 2023, a coverage ratio of 0.72%.

Discretionary cost management

The Company remains focused on its cost base and the efficiency of its lending platforms. Excluding the acquisition of Stratton Finance (effective 1 July 2022), **Operating Expenses**⁸ grew 4% on PCP, reflecting underlying salary and general inflation. The Company continues to invest at a constant rate in operational efficiencies across its processes and in technology solutions ideally placing it to leverage the return of mortgage volumes to a steady run rate.

Funding

Pepper Money remains well-funded having completed three Residential Mortgage-Backed Securities (RMBS) issuances during the half totalling \$2.4 billion and one car and equipment Asset-Backed Securities (ABS) issuance of \$0.7 billion bringing total Term Securitisation to \$3.1 billion, an increase of 22% on PCP. A further \$0.8 billion was raised via a Private Term Securitisation. At 30 June 2023 the Company also had Warehouse capacity of \$10.3 billion.

Interim Dividend

The Board has declared a **fully franked interim dividend** of 3.5 cents per share. The dividend represents a pay-out ratio of 30% and an annualised yield of 5.1% and will be paid on 12 October 2023.

Outlook

Pepper Money is encouraged by recent Equifax data showing a 4% uplift in mortgage enquiry levels over the last six months which suggests that whilst there may be further interest rate increases ahead, mortgage lending activity appears to be trending upwards.

Mario Rehayem CEO concluded, *“As we head towards 2024, we are well positioned to capitalise on growth in lending activity. Our warehouse capacity means we have ample headroom to originate, and our balanced business mix enables us to focus on pursuing sustainable growth. Our ongoing investment in processes and technology, provides us with operating leverage and the ability to capitalise on lower cost to serve whilst continuing to offer the very best service to our customers and distribution partners.”*

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 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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¹ Prior Comparable Period “PCP” – six months to 30 June 2022.

² Total Operating Income - Corporate segment not shown as a percent as not material but included in the total.

³ Loan Losses % AUM excludes post model overlay.

⁴ Pro-forma adjustments 1H 2023: \$Nil. (1H 2022: \$0.9 million relating to acquisition of Stratton Finance Pty Ltd)

⁵ Cost-to-income ratio defined as: Pro-forma Total Expenses (including Depreciation, Amortisation and Corporate Interest) divided by Total Operating Income before Loan Losses.

⁶ CAGR: compound annual growth rate. 1H 2023 over 1H 2020.

⁷ Total Loan Losses as a % AUM excluding post model overlays.

⁸ Operating Expenses: Pro-forma expenses excluding Depreciation, Amortisation and Corporate Interest.