Market Release

25 August 2023

4/100 Havelock Street
West Perth WA 6005

PO Box 710
West Perth WA 6872

Diversified income streams underpin resilient FY23 financial performance

Australian Finance Group Ltd **(ASX:AFG)** reinforced the strength of its core distribution business in the 2023 financial year (**FY23**), reporting record revenue despite a challenging period for the sector. In the face of market volatility, AFG's strategy to diversify income streams assisted it to navigate significant residential mortgage industry headwinds driven ostensibly by policy intervention. This affected mortgage competition and reduced alternatives for Australian borrowers.

FY23 full year results highlights

- Record operating cashflow of $52.1 million, with a cash conversion of 108%
- Record revenue of $1,037 million
- Reported NPAT of $37.3 million
- Underlying ROE of 24%, and a three-year TSR of 29%. 1.8 times S&P Small Industrials Index
- Total FY23 dividend of 10.7 cents per share, a dividend yield of 6.5[1] per cent.
- Maintenance of a strong and conservative balance sheet setting to support organic growth and investments in technology to help brokers and their clients.

As Australia enters a period of population growth, with housing supply constrained and anticipated housing sector investment from both the government and the private sector, an efficient, compliant, and agile mortgage broker will be vital to drive competitive home loan pricing, supporting homebuyers nationwide.

To capitalise on growing demand for mortgage broking services and ongoing industry consolidation, AFG is reinvesting in the business to ensure member brokers are best placed to benefit from changing market dynamics. The company will uplift investment in driving efficiencies and digital capabilities for AFG brokers and embed strategic acquisitions to deliver a step change in the AFG broker experience and position its core distribution business at the forefront of market opportunity.

As the company enters this new phase of investment AFG will reduce its dividend payout ratio to 60 per cent for FY23. For this investment cycle the intention is for the dividend payout ratio to remain in the range of 50 to 60 per cent for up to 24 months. Utilising its strong cash generating assets to grow its strategic investments and further diversify income streams remains a priority for AFG.

AFG Chief Executive Officer David Bailey said, "I'm proud of the resilience displayed by AFG in FY23. An unprecedented run of increases in the official cash rate and concerted campaigns by the major banks to expand their market dominance through cheap funding and cash-back offers tested our strategy, our business model, and our people."

"I'm pleased to report AFG's strategy responded well to this market volatility, which has also allowed us at the same time the opportunity to invest in and improve our business. The FY23 results reinforce the importance of our strategic investments to our growth, while our trail book continues to deliver annuity-style earnings providing a platform for strong cash conversion and investment."

"In addition, the strength of the channel in helping customers navigate change resulted in homebuyers increasingly turning to brokers for help," Mr Bailey said. "The value provided by mortgage brokers in driving

For media enquiries, please contact

Alison Clarke
Head of Corporate Communications

P (08) 9420 7014 | P 0402 781 367
afgonline.com.au

ABN 11 066 385 822

competition and choice came to the fore, with total broker mortgage share consolidating around 70 per cent during the year."

Financial performance

Continued strong demand for AFG's mortgage broking and lending services helped deliver record revenue of $1,037 million in FY23, with one in 10 residential mortgages written by an AFG broker.

"While the 12 months to 30 June 2023 were tougher than anticipated, AFG reported underlying NPATA of $48.3 million, down from $55.8 million previously," Mr Bailey said. "Given the strong cash generating nature of our business, this converted to $52.1 million in operating cashflow."

A highlight for the year was asset finance settlements nearly doubling the previous financial year underlining the important role our investment in Fintelligence plays in opening up new revenue lines."

The combined residential and commercial loan book increased by seven per cent to $206.5 billion, with a residential loan book of $194.5 billion, and a commercial loan book of $12 billion.

The AFG Securities loan book averaged $4.8 billion in FY23, 20 per cent higher than the previous year. While the average book size was higher, the loan book closed at $4.5 billion, as lower settlement volumes resulted from AFG's commitment to maintain returns on invested funds. The net interest margin was 136 bps and lower than FY22 but remained in line with the average achieved since listing on the ASX in 2015.

"Given the external landscape, margins across the non-bank sector came under increasing pressure, with AFG not immune from that impact," said Mr Bailey. "With some sub-economic pricing and cashbacks in the market, AFG Securities remained disciplined and opted to avoid writing unprofitable and riskier home loans. This translated to constrained growth in the AFG Securities loan book. The prudence of that decision has been supported by the winding back of that short-term focus by the major players in recent months."

Strategic Investments

AFG's diversification strategy continues to build. Investments in BrokerEngine, Fintelligence and Thinktank have performed strongly since AFG's investment, contributing 32 per cent to FY23 NPAT.
"Thinktank continues to go from strength to strength, with the loan book at $5.3 billion and settlement growth of three per cent over the year," said Mr Bailey. "The growth is supported by product diversity and innovation."

Since acquiring 75 per cent of Fintelligence in December 2021, asset finance broker numbers have more than doubled, and monthly settlements increased from $68 million to $312 million for the combined group at the end of FY23.

BrokerEngine performed well in its first 18 months, with subscribers increasing from 1,000 to 2,300, as users welcomed greater platform functionality built since acquisition, with more innovation to come over the next 12 to 24 months.

"We are continuing to invest to expand capability and improve efficiency to drive growth and can report significant progress in embedding technology platform upgrades across the business," said Mr Bailey. "While a complex and challenging area, the investment is expanding the options available to our brokers."

Outlook

Heading into the 2024 financial year significant cost-of-living pressures and the impact of a higher interest rate environment loom large for many Australian households. "Whilst the market remains cautious of further interest rate increases, low unemployment and migration levels rebounding mean some green shoots are emerging in the residential sector. This, coupled with a tail of fixed rate loans due for refinance over the next 12 months, provides confidence in the resilience of the broker market," said Mr Bailey.

Cyclical headwinds will ease, however the net interest margin enjoyed over the past few years will be further challenged as the business bears the full 12-month impact of higher warehouse costs on facilities rolled over prior to the end of the 2023 financial year.

"It is inevitable that the Australian economy will continue to face challenges during the next 12 months, and while our business is well positioned with strong cash generation, we will re-prioritise the use of funds to invest in our core business streams, and prepare ourselves for the next phase of growth, while still positioning AFG as a financially conservative company," said Mr Bailey.

"On the back of a strong balance sheet supported by reliable cashflow, and strategic investments setting us up for growth, our people are focused on continuing to deliver on our strategy," he said. "Put simply, we will be supporting the efforts of our brokers in promoting competition and choice for customers across asset classes and maintaining our significant role in Australia's financial system."

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Analyst briefing

David Bailey, Chief Executive Officer, and Luca Pietropiccolo, Chief Financial Officer, will provide a presentation to analysts and investors via a conference call at 10:00am (AEST) today, 25 August 2023.

To participate in the call, please pre-register using the following link:
https://registrations.events/direct/OCP61351

1. Based on closing share price of $1.65 on 24 August 2023.

The release of this announcement was authorised by AFG's Board of Directors

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