

28 August 2023

Karina So
ASX Listing Compliance
Sydney

Dear Karina

Pepper Money Limited (ASX:PPM) – Response to ASX Price Query

Pepper Money Limited (ASX:PPM) (**Company** or **Pepper Money**) refers to your letter dated 24 August 2023 (**ASX Letter**) and responds to your questions as follows:

- 1 Notwithstanding the market’s expectations in relation to PPM’s HY23 results, does PPM consider the Information (or any part of it) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

No.

- 2 When did PPM first become aware of the Information?**

The Company’s auditor, Deloitte Touche Tohmatsu (**Deloitte**), presented its report on the half-year financial statements to the Company’s Board Audit and Risk Committee (**Committee**) at a meeting which commenced at approximately 4.05pm on Tuesday, 22 August 2023. At that meeting, the Committee resolved to endorse for approval by the board of directors of the Company (**Board**) the release of the Information.

The Board held a meeting shortly after the conclusion of the Committee meeting and resolved to approve the Information for release to market, subject to sign off by an appointed sub-committee of the Board the following morning. Deloitte’s final signed Independent Audit Report (**Audit Report**) was confirmed for release at approximately 7.21am on Wednesday, 23 August 2023.

The HY23 Results Announcements were released on the market announcement platform before the market opened on Wednesday, 23 August 2023.

- 3 If the answer to question 1 is “no”, please advise the basis for that view.**

Pepper Money does not consider that HY23 Results Announcements is information that a reasonable person would expect to have a material effect on the price of Pepper Money’s shares (**Share Price**). This position is primarily based on two factors:

1. Pepper Money’s financial performance is assessed on a full-year basis, and it would otherwise be inaccurate to assess its financial performance on a half-year basis (for reasons which are set out below); and
2. the information that was already in the market as at 23 August 2023 (to which we refer below).

Pepper Money considers that a reasonable person would have anticipated a decline in Pepper Money's net profit after income tax (**NPAT**) in the first half of the financial year ending 31 December 2023 (**HY23**). A reasonable person would have made such an assessment due to the information released by Pepper Money on its profitability drivers prior to 23 August 2023 and other generally available information regarding the current economic climate. That information that was already in the market is summarised below.

a. Seasonality

Pepper Money has experienced seasonal trends that impact volumes and net interest margin (**NIM**) which cause NPAT to be lower in the first half of the financial year than the second half of the financial year. Further, Pepper Money has previously disclosed to the market the impact of seasonality on its full-year financial performance and the broader macroeconomic conditions on Pepper Money's profitability.

In section 4.2.6 on page 145 of the prospectus issued by Pepper Money on 7 May 2021 (**Prospectus**), Pepper Money articulated the impact of seasonality on its financial performance. We have extracted this information below for reference.

Pepper Money experiences a marginal seasonal effect in its financial performance between the first six months of the financial year from January to June ("1H") and the second six months to December ("2H") at the net interest income level. For example, demand for Mortgage lending and Asset Finance is typically higher during the 2H period in comparison to the 1H period as a result of seasonality in housing and vehicle purchases during the spring and summer months. This causes a marginal increase in volumes and receivables at the end of the 2H period relative to the 1H period.

b. Net Interest Margin (NIM)

Pepper Money's operating income is primarily derived from the interest and fees earned by lending (referred to as net interest income). Less than 3% of operating income is earned through fees earned on third-party loans and other servicing. Therefore, a key driver of Pepper Money's profitability is NIM which is the net interest income divided by the average lending assets under management for the relevant period.

The broader economic conditions (including inflation, volatility in debt capital markets and rapidly rising interest rates), coupled with competition primarily among the banks to gain market share, have resulted in compression on NIM across all lenders (bank and non-bank).

In its presentation of the full-year financial results for the financial year ending 31 December 2022 (**FY22 Results**), Pepper Money disclosed to investors that:

- the key factors leading to NIM compression are the BBSW/swap rate and interest rate increases;
- the impact of NIM compression on Pepper Money's profitability that continued as a trend from the 2021 financial year; and
- intense competition amongst the banks.

c. Annualisation of the acquisition of Stratton Finance Pty Ltd (**Stratton**)

The Company acquired Stratton on 1 July 2022, and consolidated Stratton into the FY22 Results for the 6 months to 31 December 2022.

The Company highlighted in its FY22 Annual Report and in its FY22 Results Presentation that full year expenses only included 6 months of expenses for Stratton, given the acquisition date of 1 July 2022.

It was therefore reasonable to expect that for the purposes of the Company's HY23 Results, the expenses for the six months to June 2023 would need to be adjusted to include Stratton into the run

rate. This adjustment would further flow through to NPAT, when compared to prior comparable period.

d. General Information

During the first half of 2023, the Reserve Bank of Australia (**RBA**) increased the cash rate by 75 basis points (from 3.35% in February to the current 4.10%). The RBA cash rate is widely available information. Pepper Money has released information that identifies the impact of rate increases on NIM, leading a reasonable person to expect that the HY23 cash rate increases would impact Pepper Money's NPAT.

We note that since the end of July 2023, there has been extensive reporting by sell-side analysts regarding the impact on NIM compression on all lenders (bank and non-bank). For example, the analyst reporting on Commonwealth Bank of Australia, Judo Capital Investment Limited and Plenti Group all commented on NIM compression.

4 Does PPM consider that its results as disclosed in the HY23 Results Announcements and copied in paragraph A above, differed materially from the market's expectations of the relevant measure of PPM's earnings for HY23, having regard to the following three base indicators which may have informed such market expectations (in decreasing order of relevance and reliability):

4.1 If PPM had published earnings guidance for HY23, that guidance.

Pepper Money does not publish earnings guidance for any reporting period including HY23.

4.2 If PPM is covered by sell-side analysts, the earnings forecasts of those analysts for the Relevant Reporting Period.

Pepper Money is covered by sell-side analysts which publish earnings forecasts on Pepper Money (**Analyst Reports**). For the financial year commencing 1 January 2023 (**FY23**), there were eight institutions which produced Analyst Reports. Of the eight institutions' Analyst Reports, only three included estimates for HY23.

Pepper Money carefully considered its internal projections for FY23 against the FY23 estimates in the Analyst Reports before the release of the HY23 Results Announcements. Pepper Money also conducts a rolling forecast process reviewing year-end position monthly. At all times from the start of FY23 to the date of this letter, Pepper Money's internal FY23 forecasts have been and are no more than 10% below the consensus of FY23 estimates on NPAT in the Analyst Reports (**Consensus Estimate**).

On that basis, Pepper Money's position is consistent with ASX guidance in relation to a potential earnings surprise, in particular, section 7.3 of ASX Guidance Note 8 (**GN 8**). GN8 provides that an entity that does not publish earnings guidance, but it is covered by sell-side analysts, should consider notifying the market if it expects there to be a 15% or greater difference between its actual or projected earnings for the period and the analyst estimates.

Pepper Money's position on assessing its financial performance on a full-year (not a half-year basis) is also consistent with market practice with only three out of eight institutions publishing sell-side estimates on Pepper Money's financial performance on a half-year basis. This is also consistent with ASX guidance in section 7.3 of GN 8 which provides that other factors that will bear upon that entity's obligation to disclose a potential earnings surprise, include the number of the analysts covering its securities (being only three of eight institutions providing forecasts on a half-yearly basis).

4.3 If paragraphs 4.1 and 4.2 are not applicable, PPM's earnings for the prior corresponding period, being the half year ended 30 June 2022.

Not applicable.

5 Please explain the basis for the view provided in response to question 4. In doing so, please specify how PPM determined market expectations of each relevant measure of its earnings for HY23, including:

5.1 If PPM had published earnings guidance for HY23, details of that guidance and when it was released to the market.

Not applicable.

5.2 If PPM used sell-side analyst forecasts to estimate the market's expectations of the relevant measure of its earnings for the Relevant Reporting Period, details of the method that PPM used to translate sell-side analyst forecasts into its estimate of such market expectations and, in particular, whether or not PPM used a "consensus estimate" or an "adjusted consensus estimate" or a different specified approach for determining this estimate.

Pepper Money has a rigorous process for assessing Analyst Reports against Pepper Money's internal projections on a full year basis. Pepper Money's Chief Financial Officer monitors the Analyst Reports and collates the full-year estimates in the Analysts Reports to calculate the Consensus Estimate. The Consensus Estimate is compared against Pepper Money's estimated full-year internal financial projections. This information is presented to and carefully considered by the Board in assessing the market expectation of the Company's financial performance on a full-year basis.

6 Please confirm PPM is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Pepper Money confirms that it is in compliance with the Listing Rules, including Listing Rule 3.1.

7 Please confirm that PPM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of PPM with delegated authority from the board to respond to ASX on disclosure matters.

Confirmed.

Additional Information

Pepper Money also notes two comparable companies, Judo Capital Investment Limited and Australian Financial Group Limited, experienced a material decrease in their share price on release of their full-year FY23 results. This decrease is likely attributable to the market's reaction to earnings drops based on NIM compression in lenders, which has been an industry-wide occurrence this reporting season.

Yours sincerely,



John Williams
General Counsel and Company Secretary
Pepper Money Limited



24 August 2023

Reference: 78581

Mr John Williams
Company Secretary
Pepper Money Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

By email

Dear Mr Williams

Pepper Money Limited ('PPM'): General – Aware Query

ASX refers to the following:

A. The following PPM announcements, all released pre-market open on the ASX Market Announcements Platform ('MAP') on 23 August 2023 titled:

- "Half Yearly Report and Accounts";
- "Half Yearly Results Announcement";
- "Half Yearly Report Investor Presentation"; and
- "Dividend/Distribution - PPM".

(collectively referred to as, the 'HY23 Results Announcements' or 'Information'), in which PPM disclosed (amongst other things) that its key reviewed HY23 financial results were as follows:

All comparisons to half-year ended 30 June 2022:

Statutory Results				\$M
Net interest income	Down	3.9%	to	184.9
Total operating income	Down	2.5%	to	193.5
Net profit after income tax	Down	28.0%	to	52.0

Dividends

The Directors have approved an interim dividend in respect to the half-year ended 30 June 2023 of 3.5 cents per ordinary share (30 June 2022: 5.4 cents per ordinary share).

This interim dividend will be paid on 12 October 2023 to shareholders on the share register as at 12 September 2023.

	Amount per security	Franked amount per security
Interim 2023 dividend (declared 23 August 2023)	3.5 cents	3.5 cents
Final 2022 dividend (paid 14 April 2023)	5.1 cents	5.1 cents

Net tangible assets per ordinary share

Net tangible assets per ordinary share is calculated using tangible assets and the number of shares on issue at the reporting date.

	30 June 2023 \$	31 December 2022 \$
Net tangible assets per ordinary share	1.65	1.56

- B. The decrease in the price of PPM's shares by 14.15% on 23 August 2023, from its previous closing price of \$1.555 to a closing price of \$1.335.
- C. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- D. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

- E. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing Rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

- F. ASX's policy position on "market sensitive earnings surprises", which is detailed in section 7.3 of Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B ('GN8'). In particular, the Guidance Note (relevantly) states that:

"An earnings surprise will need to be disclosed to the market under Listing Rule 3.1 if it is market sensitive - that is, it is of such a magnitude that a reasonable person would expect information about the earnings surprise to have a material effect on the price or value of the entity's securities"...

"Where an entity does not have published earnings guidance on foot for the current reporting period and it is covered by sell-side analysts, ASX would recommend that the entity carefully consider notifying the market of a potential earnings surprise if and when it expects there to be a 15% or greater difference

between its actual or projected earnings for the period and its best estimate of the market's expectations for its earnings" ...

Request for information

Having regard to the above, ASX asks PPM to respond separately to each of the following questions and requests for information:

1. Notwithstanding the market's expectations in relation to PPM's HY23 results, does PPM consider the Information (or any part of it) to be information that a reasonable person would expect to have a material effect on the price of value of its securities?
2. When did PPM first become aware of the Information?
3. If the answer to question 1 is "no", please advise the basis for that view.
4. Does PPM consider that its results as disclosed in the HY23 Results Announcements and copied in paragraph A above, differed materially from the market's expectations of the relevant measure of PPM's earnings for HY23, having regard to the following three base indicators which may have informed such market expectations (in decreasing order of relevance and reliability):
 - 4.1 If PPM had published earnings guidance for HY23, that guidance.
 - 4.2 If PPM is covered by sell-side analysts, the earnings forecasts of those analysts for the Relevant Reporting Period.
 - 4.3 If paragraphs 4.1 and 4.2 are not applicable, PPM's earnings for the prior corresponding period, being the half year ended 30 June 2022.
5. Please explain the basis for the view provided in response to question 4. In doing so, please specify how PPM determined market expectations of each relevant measure of its earnings for HY23, including:
 - 5.1 If PPM had published earnings guidance for HY23, details of that guidance and when it was released to the market.
 - 5.2 If PPM used sell-side analyst forecasts to estimate the market's expectations of the relevant measure of its earnings for the Relevant Reporting Period, details of the method that PPM used to translate sell-side analyst forecasts into its estimate of such market expectations and, in particular, whether or not PPM used a "consensus estimate" or an "adjusted consensus estimate" or a different specified approach for determining this estimate.
6. Please confirm PPM is complying with the Listing Rules and, in particular, Listing Rule 3.1.
7. Please confirm that PPM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of PPM with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:00 AM AEST Monday, 28 August 2023**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, PPM's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require PPM to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in PPM's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in PPM's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to PPM's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that PPM's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Kind regards

Karina So
Adviser, Listings Compliance