MA Financial Group

We invest. We lend. We advise.

ASX Announcement

22 February 2024

$9.2bn	$110bn	$120bn+
Assets under Management	Managed Loans	Corporate Advisory & ECM transactions[1]

MA Financial delivers record FY23 inflows and strong loan growth

MA Financial Group Limited (the Group; MA Financial; ASX: MAF) is pleased to present its financial results for the 12 months to 31 December 2023 (FY23):

Operational highlights

- Record annual gross fund inflows of $1.94 billion, up 27% on FY22
- Assets under management (AUM) up 18% on FY22 to $9.2 billion
- Recurring revenue up 23% on FY22 to $178 million
- Finsure managed loans up 21% on FY22 to $110 billion
- Loan book grew 150% on FY22 to $983 million driven by the accelerating growth of MA Money
- Increase in recurring revenue partially offset lower market related Corporate Advisory, performance fee revenue and planned strategic investment in future growth

Financial results

- Underlying revenue, down 11% on FY22 to $270 million
- Underlying earnings per share (EPS) down 32% on FY22 to 26.0 cents (Statutory EPS down 36% to 17.8 cents)
- Fully franked final dividend of 14 cents per share, in line with 2H22. The full year dividend of 20 cents per share is in line with FY22, reflecting the Group's strong capital position, ongoing platform growth and positive medium-term earnings outlook

MA Financial today announced its full year result for 2023, highlighted by strong growth in the Group's recurring revenue streams, record fund inflows, ongoing growth in Finsure and accelerating loan volume growth for MA Money. Significant strategic investment in growth initiatives during the year are showing promising results. This investment represented a 5 cents per share negative earnings impact in FY23. The challenging macro environment resulted in lower transactional activity and reduced the value of some assets, impacting performance fees and corporate advisory revenue.

Although Underlying revenue of $269.9 million was down 11% on FY22, the 23% growth in Group recurring revenue was very significant. In FY23 recurring revenue represented 66% of Underlying revenue versus 48% in FY22, highlighting the significantly improved composition of earnings in the period.

FY23 Underlying Net Profit After Tax of $41.6 million and Underlying EPS of 26.0 cents were both down 32% on FY22. Importantly, this was delivered whilst making a material investment in future growth, a strategy that has served the Group well over time. This strategic expense included investing in the growth of MA Money, expanding the Group's Private Credit business into the United States, opening new distribution channels in Singapore and Japan, plus investment in the growth of the MA brand. A stronger and more recognised brand will assist all areas of our business.

Asset Management delivered 80% of the Group's EBITDA (before Corporate costs), with an improved earnings mix as recurring revenue grew by 22% or $27.7 million offset by a $44 million decline in performance fees relative to an elevated contribution in FY22 and lower realised gains on investments.

Asset Management received record gross fund inflows of $1.94 billion in FY23, up 27% on FY22. Investor interest in the Group's Private Credit funds was very strong and the launch of the MA Marina Fund, represents scalable new alternative asset class for the business. The strong client inflows lifted AUM to $9.2 billion at year end.

The Group's strategic development of a Residential Lending Marketplace within the Lending & Technology division continued to build momentum. Finsure grew its managed loans by 21% on FY22 to $110 billion, as it added almost 500 net new brokers to its platform during the year. Finsure now services 3,129 brokers and continues to materially grow its market share. December was a record month with $4.5 billion of loan settlements.

Following the launch of its new product set early in the year, MA Money continues to build momentum in the Australian residential mortgage market. MA Money grew its loan book by 244% on FY22 to $829 million with growth in loan settlements accelerating over the year. We are extremely pleased with the growth and prospects for MA Money so soon after its launch as a brand.

Corporate Advisory & Equities (CA&E) EBITDA was down 51%, as difficult macroeconomic conditions and market volatility impacted equity capital markets (ECM) activity and increased execution risks and timing on advisory transactions. Post balance date the transactional environment has shown some signs of improvement allowing several deals to close on which work was largely completed in FY23.

The Board has maintained a fully franked final dividend of 14 cents per share. The full year dividend of 20 cents per share is in line with FY22.

Since listing at $2.35 per share in 2017, MA Financial will have paid to its shareholders an aggregate of 92 cents per share in fully franked dividends.

Joint CEOs Julian Biggins and Chris Wyke said:

> *"We are very pleased with the strong underlying momentum being experienced across the business that sees the Group very much on track to deliver on its FY26 business targets.*
>
> *MA Financial now manages in excess of $110 billion in loans alongside our $9.2 billion in assets under management. Finsure's managed loans and MA Money's loan book all demonstrated accelerating growth over the year. This positions the business well for strong earnings growth in the years ahead.*
>
> *"Despite the challenging economic backdrop, we continue to see the benefits of our diversified business model, and our intentional strategy to build a business that can deliver for investors through the economic cycle. We continued to strategically invest during FY23 in building several highly scalable business platforms in Australia and offshore that will help us to deliver on our significant growth ambitions over the medium term."*

Key financial tables

UNDERLYING RESULTS[1]	FY23	FY22	GROWTH
Revenue	$269.9m	$301.8m	(11%)
Expenses	$188.3m	$195.1m	(3%)
EBITDA	$81.6m	$106.7m	(24%)
Net profit after tax	$41.6m	$61.4m	(32%)
Earnings per share	26.0¢	38.3¢	(32%)
EBITDA margin	30.2%	35.4%	(5.2 pps)
Return on equity	10.6%	15.9%	(5.3 pps)
Cash & undrawn facilities[4]	$123.1m	$138.8m	(11%)

STATUTORY RESULTS[1]	FY23	FY22	GROWTH
Revenue[2]	$392.8m	$335.0m	17%
Expenses	$218.6m	$216.1m	1%
EBITDA[3]	$174.2m	$118.9m	47%
Net profit after tax	$31.1m	$44.9m	(31%)
Earnings per share	17.8¢	28.0¢	(36%)
Dividend per share	20.0¢	20.0¢	-

[1] Refer to slides 49 - 51 in the FY23 Result presentation for a reconciliation of Statutory to Underlying Results.
[2] Statutory Revenue refers to total income on the consolidated statement of profit or loss and other comprehensive income.
[3] Statutory EBITDA is not a recognised IFRS measure but has been presented to give a comparable measure to the Underlying Result.
[4] Represents Operating Balance Sheet cash plus undrawn amount of bank working capital facility (FY23:$80m; FY22: $40m). Refer to page 52 - 54 in the FY23 Result Presentation for reconciliation to Statutory Balance Sheet.

Performance Review of Business Activities

Asset Management

Underlying EBITDA from Asset Management was down 21% on FY22 to $82.2 million due to a largely anticipated $44 million decline in performance fees. Divisional earnings composition improved with recurring revenue up 22% on FY22 to $153 million driven by strong growth in Credit Funds income.

Recurring revenues were driven by a 65% increase in Credit Funds income to $42.4 million and a 13% increase in base management fees to $104.2 million as average AUM rose 17% in FY23.

As a consequence of the innovative structure of the Group's major Private Credit Funds they generate predictable interest income from the Priority Income Fund strategies (PIF) and consistent loan arranger fees from our Real Estate Credit Fund (REC). The growth and predictability of these revenue items highlights the strength of inflows into the Group's Private Credit funds over the last 12 months.

Performance fees decreased 82% from FY22 to $10.0 million, largely due to the prior period recording an elevated performance fee contribution from the Group's Hospitality assets which was not anticipated to be replicated in FY23. Transaction fees were up 49% to $10.7m in part due to the successful acquisition of the D'Albora Marina portfolio to see the MA Marina Fund.

Assets Under Management (AUM) were up 18%, or $1.4 billion, to $9.2 billion over the 12 months to 31 December 2023. Gross fund inflows of $1.94 billion were up 27% on FY22, predominately driven by flows into the Group's Private Credit funds. Net inflows of $1.31 million were up 17% on FY22.

The growth in client inflows is increasingly being driven by the Group's success in securing investment from domestic investors. In FY23, gross inflows from this category were up 81% on FY22 to $1.1 billion, which accounted for 57% of total inflows. This compares with $123m domestic flows in 2020, representing 14% of total flows.

Much of the FY23 domestic flows were directed to Private Credit funds and the establishment of the MA Marina Fund. MA Financial funds are increasingly benefitting from positive research ratings, their presence on investment platforms and inclusion in adviser group model portfolios. Only 1% of FY23 gross inflows went into migration related funds.

Flows from international high net wealth (HNW) non-migration funds related clients grew 67% to $647 million in FY23, highlighting the power of the Group's international distribution network beyond the offer of migration funds. This capability was further enhanced with the opening of the Group's new Singapore office in 1H23 and the launch of a new digital distribution partnership in Japan in December. The Group is also in the early stages of building distribution capability in the United States for its Private Credit Funds. The diversification and growth in fund flows reflects the Group's significant investment in its distribution platform over many years. The results of this investment in distribution are a good example of why the Group remains committed to investing for future growth alongside scaling its established businesses.

Expenses of $93.9 million were largely flat on FY22 despite the investment in new distribution platforms and the build out of the Group's US Private Credit platform. These projects added roughly $5 million to Asset Management expenses.

Lending & Technology

The Lending & Technology business continues to be the focus of growth investment as the Group executes on its strategy to build an integrated Residential Lending Marketplace. The continued growth in Finsure was offset by increased investment in platform and lower revenue from Specialty Finance as the Group's balance sheet successfully exited a credit asset in 1H22.

Financial Technology comprises Finsure, a tech-enabled mortgage aggregation platform, and the emerging Middle technology platform, a digital tool that assists brokers to collect verified financial information for loan applications.

Financial Technology grew its Underlying revenue by 24% as Finsure increased its Managed Loans to $110 billion in FY23, up 21% on FY22. It increased total brokers on its platform to 3,129, adding a further 489 net new brokers over the year as it continues to gain market share. Expenses were up 30% on FY22 due to investment to facilitate the continued growth of Finsure and the rollout of Middle to brokers. Middle began gaining traction in 2H23 and in January 2024 over $500 million worth of loan applications were received through its digital platform and this is anticipated to rise to around $1 billion per month by the end of 1H24.

Lending Platforms grew its total loan book 150% on FY22 to $983m. This comprises residential mortgage lender MA Money and Specialty Finance which is focused on high-margin specialised lending capabilities, including legal disbursement finance activities.

MA Money launched its new mortgage product set early in FY23 and has delivered impressive growth in a highly competitive market. Its loan book grew 244% in FY23 to $829 million at year end as monthly loan settlements accelerated over the year. However, the significant investment in MA Money was a drag on overall performance, leading to a $6.2 million EBITDA loss in FY23. This drag is expected to continue in 1H24 as the business continues to scale and position itself to take advantage of the substantial opportunity for long-term growth in the residential mortgage market.

Whilst growth in loan volumes was in line with expectations, heightened competitive pressure had an impact on loan margins in FY23. MA Money is anticipated to achieve a break-even earnings run rate in 2H24 and remains on track to deliver NPAT of $15 million to $20 million in FY26. Importantly, this growth is being achieved in a highly capital efficient manner, highlighted by the successful completion of MA Money's initial Residential Mortgage-Backed Securities issuance in November 2023 for an upsized $500 million. This transaction was the largest inaugural non-bank RMBS issuance by a lender in Australian history, highlighting the diversity and flexibility of MA Money's funding model.

Through its ongoing investment in the Lending and Technology business, the Group has built a highly scalable lending ecosystem that has the ability to generate tech-based fee income, spread income and primary investment product for its Asset Management credit funds. The scaling of this platform represents a significant opportunity for MA Financial.

Corporate Advisory & Equities (CA&E)

Corporate Advisory & Equities (CA&E) Underlying EBITDA was down 51% on FY22 to $6.9 million largely due to challenging market conditions impacting transaction timelines and equity capital market activity levels.

Corporate Advisory fees were down 24%, reflective of the difficult environment for deal execution and a prior period (FY22) that was supported by the Group's role advising Consolidated Press Holdings (CPH) on its stake in Crown Resorts. As a result, revenue per executive of $0.8 million in FY23 was below management's targeted range of $1.1 to $1.3 million. The business advised on $3.5 billion of transactions in FY23, down from $13.9 billion in FY22 largely due to the size of the CPH mandate in the prior period.

Equities commissions were up 12% from FY22 to $5.2 million, despite softer equity market volumes during the year, as the business benefited from a stable team following a successful rebuild in late FY22.

Expenses were down 13% on FY22 reflecting lower staff compensation costs in line with the softer revenue performance and a reduction in headcount due to natural attrition. However, a focus on protecting the business through staff investment in a difficult year led to a slightly elevated compensation ratio in FY23.

In 2H23, the division also strategically expanded by hiring senior metals and mining expertise, positioning itself to meet the increasing client demand for natural resources advisory and execution. The Group will continue to develop and grow the division where there is strategic opportunity but will remain selective in its approach, always having regard to the maintenance of its revenue per head target range, cost discipline and the consistency of earnings productivity in the business over the long term.

Balance sheet, capital management and dividend

As at 31 December 2023, the Group had Net Assets of $397.5 million, including $43.1 million of operating cash. The dynamic use of the balance sheet continued to be a strong driver of business growth in FY23. During the year the Group recycled in excess of $100 million from prior investments into cash whilst re-investing a similar amount to support new growth and strategic initiatives.

In December 2023, the Group successfully increased the size of its revolving working capital facility from $40.0 million to $80.0 million. The facility upsize will provide the Group with additional liquidity and flexibility, reducing the need to hold excessive cash balances. As of 31 December 2023, the facility was undrawn.

The Board declared a fully franked final dividend of 14 cents per share, in line with 2H22. The full year distribution of 20 cents per share (fully franked) is in line with FY22, representing an elevated payout ratio of 77%. This reflects the Group's strong capital position, ongoing platform growth and positive medium-term earnings outlook.

Post balance date activity and outlook

Underlying business momentum continued into early FY24. Key highlights for the business have been:

- Continued strength in fund inflows with an additional $262 million of gross flows (net inflows $194 million) received in the first six weeks of FY23
- Exchanged to acquire the Vibe Docklands Hotel for $96 million to seed the newly launched MA Hotel Accommodation Fund
- Appointed a new Head of Distribution in the United States
- MA Money growth continues to accelerate with over $160 million of loan settlements over FY24 to date
- Good momentum in Finsure and Middle loan processing volumes. Middle received approximately $500 million of loan applications in January 2024 and is anticipated to reach $1 billion per month by end 1H24
- Slightly improved environment for corporate advisory with deals already announced in FY24 (where work was largely completed in FY23) expected to deliver $10 million[1] of fees.

Looking ahead across the remainder of the year we anticipate:

- Continued growth in Asset Management fund flows, however recurring revenue margin is expected to be lower in FY24 due to the impact of interest rates on real estate, the sale of approximately $180 million of hospitality assets and the FY23 margin being elevated due to strong performance of Private Credit Funds.
- Performance and transaction fees to remain broadly consistent with FY23
- Ongoing growth in Finsure's revenue and MA Money targeting break even run rate in 2H24
- Corporate Advisory revenue per executive targeted at the lower end of the Group's $1.1 million to $1.3 million historical average, due to ongoing market uncertainty.
- Continued investment in strategic initiatives including the US Private Credit platform, MA Brand, MA Money, Middle and Singapore distribution. This is expected to impact FY24 earnings by 6 cents per share, with a skew towards 1H24.

This outlook commentary is subject to market conditions, the timing and completion of Corporate Advisory transactions and no material regulatory change.

A conference call for analysts and investors will be held at 11:00am (AEDT) today with Joint CEOs, Julian Biggins and Chris Wyke and CFO, Giles Boddy. You can access the webcast of the event at this link: **https://webcast.openbriefing.com/maf-fyr-2024/**

A video featuring MA Financial Joint CEO's outlining the strategic backdrop to the Group's FY23 result is available here: **http://www.mafinancial.com/insights/full-year-financial-result-2023**

Authorised for release by a Sub-Committee of the Board of MA Financial Group Limited

For further information, please contact:

Investors:

Michael Leonard
+61 466 773 093
michael.leonard@mafinancial.com

Media:

Jane Clapcott
+61 409 837 484
jane.clapcott@mafinancial.com

[1] Subject to usual closing conditions