

# 1H24 Investor Presentation

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**All values in \$AUD unless stated otherwise**

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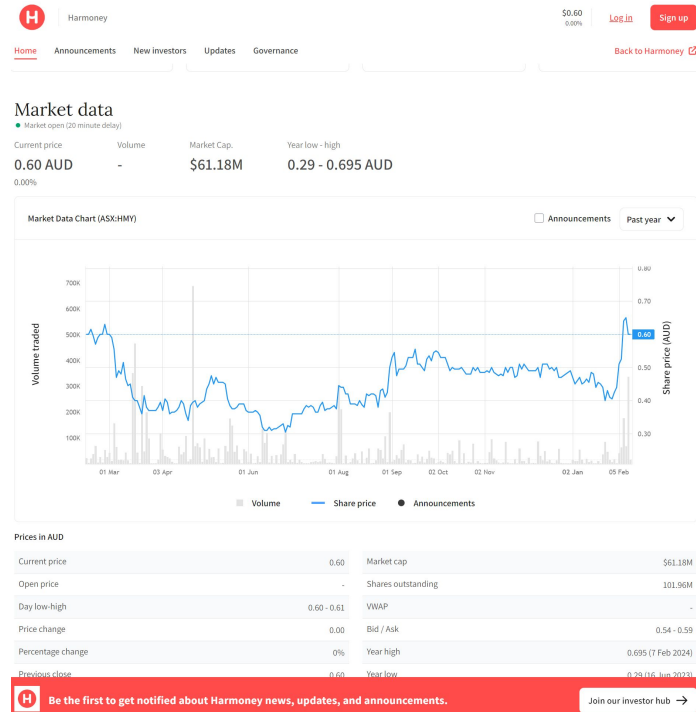
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**Harmony**

# Delivering results 1H24

# 1H24 key achievements

✓ ACHIEVED

## Cash NPAT Profitable

4th consecutive half of Cash NPAT profitability

↑ GROWTH

## Loan book growth

Loan book continued to grow profitably despite higher interest rate environment

✓ ACHIEVED

## \$200m NZ ABS

Successfully completed New Zealand's first ever unsecured personal loan backed ABS

↑ GROWTH

## Warehouse capacity extended

New \$140m warehouse added and three existing facilities extended for two years each, creating growth capacity of ~\$250m

✓ ACHIEVED

## New platform launched

Stellare<sup>®</sup> 2.0 developed in-house, unlocks 25x faster release cadence and incorporates state of the art cloud native core banking system (used by Global Tier 1 banks).

✓ ACHIEVED

## Peer-to-peer closed

Remaining retail peer-to-peer lenders repaid, enabling the retirement of legacy peer-to-peer infrastructure.

1 MARKET LEADING

## Cost to income %

Automation drove continued efficiency gains with cost to income down to 24%. Further gains from new platform now being realised.

↑ GROWTH

## Corporate debt upsized

Refinanced corporate debt with limit increased 50% providing junior note capacity for up to ~\$200m additional loan book growth.


# Profitability continues through rising interest rate cycle


	1H24	2H23	1H23
<b>Loan book</b>	\$756m	\$744m	\$701m
<b>Revenue</b>	\$60.4m	\$57.0m	\$50.1m
<b>Net Interest Margin</b>	9.2%	9.4%	9.8%
<b>Credit losses</b>	4.2%	4.0%	3.1%
<b>90+ day arrears</b>	65bps	58bps	46bps
<b>Cost to income ratio</b>	24%	28%	29%
<b>Cash NPAT</b>	\$0.5m	\$2.4m	\$2.3m

# Key points you should know about Harmoney


## Financial

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- Cash NPAT profitable. 
  - Cost to income ratio of 24%.
  - Unrestricted cash of \$21m.
  - Undrawn warehouse capacity of ~\$250m.
- 


Attractive 9.2% net interest margin. Ability to easily adjust rates due to consumer-direct model. 

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Target of Cash Return on Equity of 20% during FY25. 

## Customer value


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Customers rate us!  
Google & Shopper Approved   
4.8/5 overall rating from  
>55,000 reviews.

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Existing customers  
return for future loans creating  
annuity stream - at minimal  
Customer Acquisition Cost  
(CAC). 

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Trans-Tasman appeal with  
Australia now 52% of loan  
book. 

## Risk management


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Quality portfolio.   
~40% Homeowners.  
4.2% losses.  
0.65% 90+ day arrears.

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Diversified funding from 3 of  
the “Big 4” Australian banks  
+ securitisation programs in AU  
and NZ. 

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89% of borrowings  
hedged to mitigate impact of  
interest rate movements. 

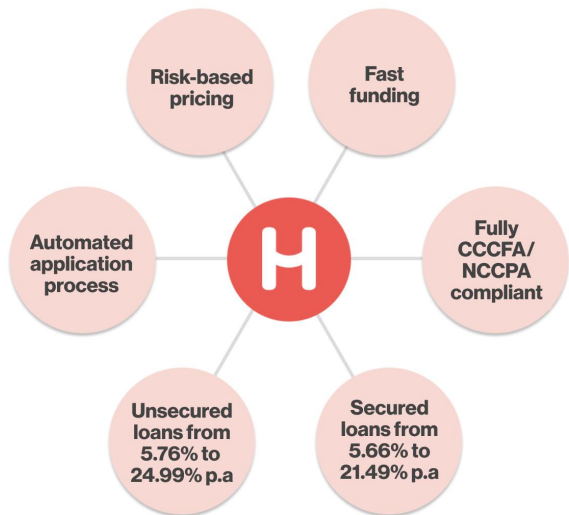


**Harmony**

# Overview of business model

# Customer value proposition

## Delivering faster, fairer loans through our smart technology



- Personalised fixed rates based on customer credit characteristics.
- Loans up to \$70,000 with terms of 3, 5 and 7 years.
- Average new loan size \$20,000.
- Dispersal to customers in minutes.
- One upfront loan establishment fee. No other fees.
- Loans fully compliant with consumer lending codes in AU/NZ.

## Use of funds



Renovation Loans



Debt Consolidation



Car Loans



Education Loans



Travel Loans



Wedding Loans

# Data + AI + Automation

Every month, over **10,000 new customer applications** help us improve our AI and automation

2021 & 2023

FINANCIAL REVIEW BOSS

**MOST** INNOVATIVE  
COMPANIES

S T E L L A R E

High volumes of up-to-the-moment consumer financial data – combined with our 9+ years of historic data – supercharges training of our AI models, helping us optimise for:

- Highly efficient marketing with Google producing high volumes of desirable customers at low cost.
- Risk Adjusted Income of 5% through more accurate assessment of customers.

Quality, first-party, consumer-direct data (e.g. bank statements, credit file, ID) to fuel our AI models has been a core feature of Harmony since our inception.

# The Harmony business model maximises customer lifetime value

## Right customer

- Build reliable target customer model through AI and high quality first-party consumer data.
- Partner with large-scale platforms (e.g. Google, Microsoft Ads, Facebook) to implement cost-effective customer acquisition channels.
- Use direct relationship and customer segment fit to devise and offer new products and services.



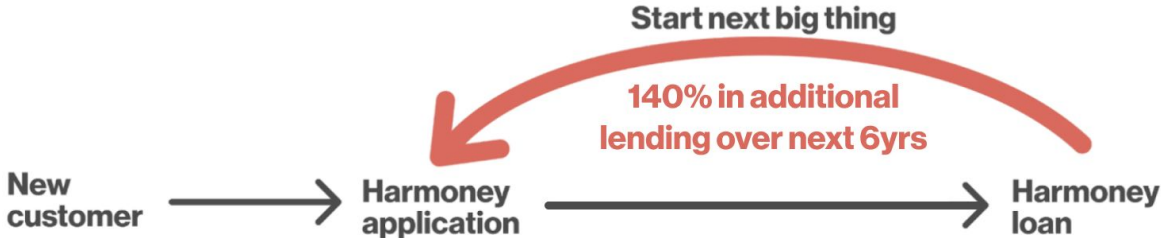
4.8/5 overall rating >55,000 reviews

## Great experience

- First-class customer experience creates annuity revenue as customers return with minimal customer acquisition cost (CAC).
- Highly automated simple and streamlined 100% online process.






## Massive scale

- Exploit tech to build scale, speed, and automation to decouple costs from growth - Harmony has a market leading 24% cost to income ratio which continues to reduce.



# Financial results

# Key performance indicators

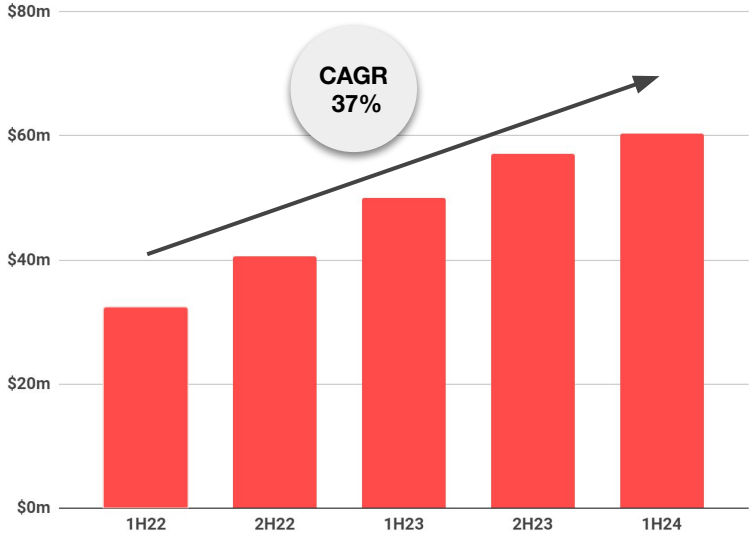
	1H24	1H23		Change
<b>Loan book</b>	\$756m	\$701m		8%
<b>Revenue</b>	\$60.4m	\$50.1m		21%
<b>Net interest income %</b>	9.2%	9.8%		(60bps)
<b>Risk adjusted income %</b>	5.0%	6.7%		(170bps)
<b>Acquisition costs</b>	\$5.4m	\$6.5m		(17%)
<b>Cost to income ratio</b>	24%	29%		(500bps)
<b>Statutory NPAT</b>	\$(0.6m)	\$(3.4m)		82%
<b>Cash NPAT</b>	\$0.5m	\$2.3m		(78%)

# Loan book and revenue growth continue

## Revenue growth 21% on pcp

- Group loan book \$756m, up 8% on pcp, with growth in both countries, and Australia now 52% of total loan portfolio.
- Higher market interest rates constraining borrower appetite and capacity.
- Revenue grew by \$10m to \$60m, up 21% on pcp.
- Average interest rate 16.1%, up from 15.4% pcp. Will continue building as earlier, lower rate loans repay.

## Group revenue growth

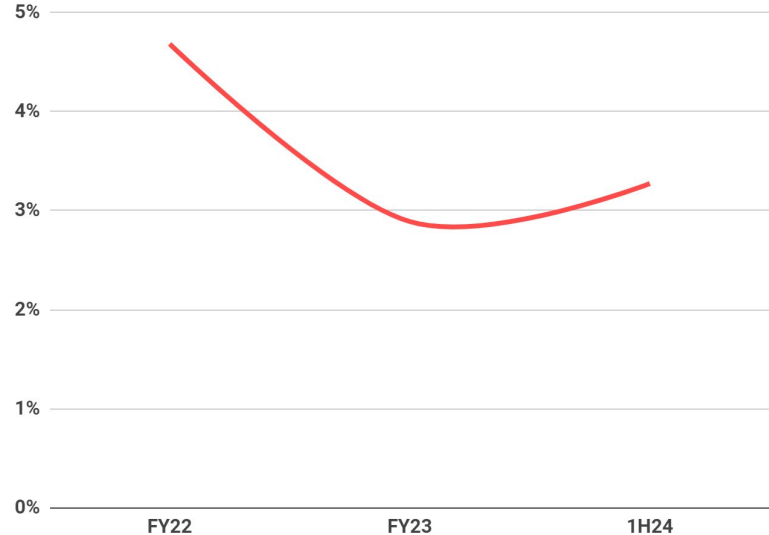


# Acquisition costs reduce 17%

## Flexible consumer-direct model

- Responsive to lower consumer borrowing appetite and capacity from rising market interest rates.
- Acquisition cost to income ratio falls to 9% (13% pcp).
- Small increase in CAC% to originations due to lower existing customer (near zero cost) originations. Historic trend expected to return with origination growth.
- Direct relationship means existing customers return at near zero CAC next time they want help to start something new.

## CAC % to originations



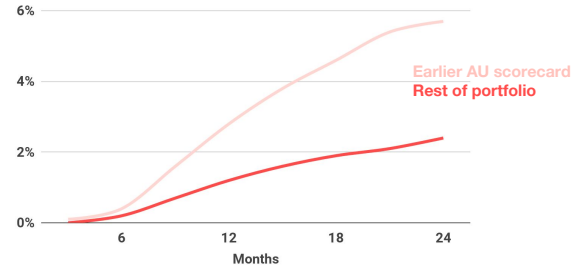


# Deep data and AI deliver prime loan book

## Risk Adjusted Income (after losses) 5%

- Lower originations increased portfolio “seasoning” to 13 months (1H23: 9 months) placing higher proportion in “peak hazard” loss period.
- Improved Australian credit scorecard implemented over 18 months ago exhibiting lower loss rate, setting expectation for lower portfolio loss.
- Risk adjusted income at 5% remains enviable within the consumer lending market.
- Loan portfolio comprised of 74% employed in either professional, office or trades roles and 87% aged 30+.

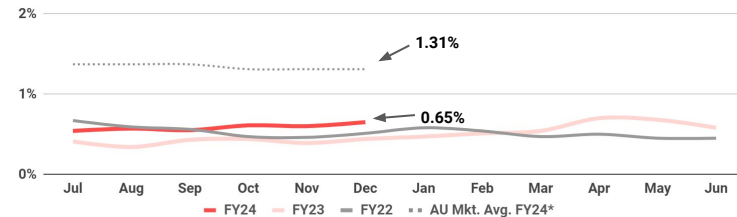
## Static loss rate



## Portfolio



## Low 90+ day arrears



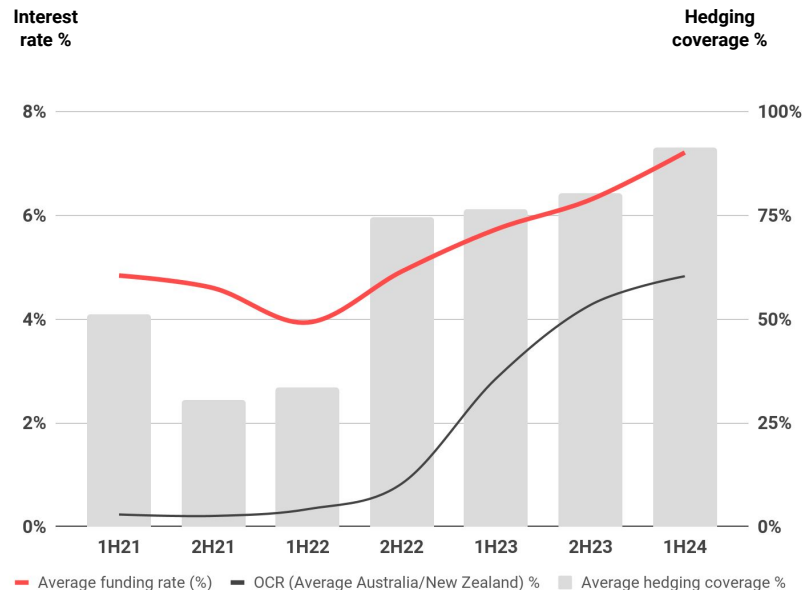
\*Source: Equifax Australian Consumer Credit Demand Index 2023 Q4, Personal Loan series.

# Diversified funding and hedging program lower risk

## Funding from 3 of the “Big 4” banks

- Poised for portfolio growth with:
  - Unused warehouse capacity: ~\$250m
  - Unused corporate debt capacity: \$7.5m
  - Unrestricted cash \$20.7m
- Capital efficient with borrowings 95% of loan book (incl. restricted cash).
- Average funding rate 7.2%, +150bps on pcp. Hedging coverage 89%.
- NIM 9.2%, within target range of 9%-10%.

## Average funding rate

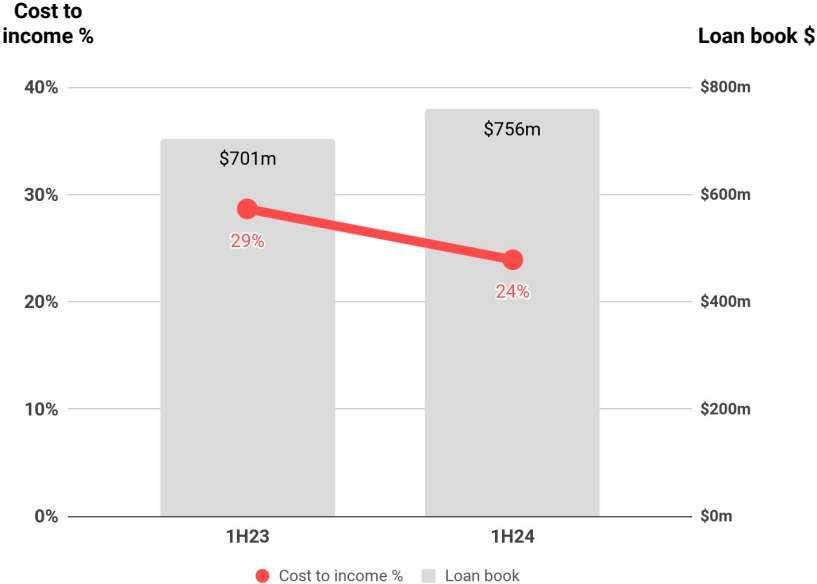


# Stellare<sup>®</sup> automation powers scalability

## Scalability drives profitability

- Cost to income ratio improves further to 24%.
- Highly automated Stellare<sup>®</sup> platform enables loan book to scale faster than operating expenses.
- Stellare<sup>®</sup>'s scalability underpins delivery of:
  - Fourth consecutive Cash NPAT profit, maintained during interest rate tightening cycle; and
  - Target 20% Cash Return on Equity run rate in FY25.

## Cost to income ratio at 24%

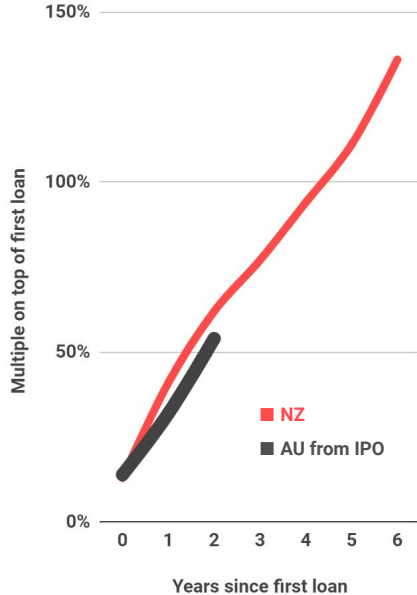


**Harmony**

# Strategy and outlook

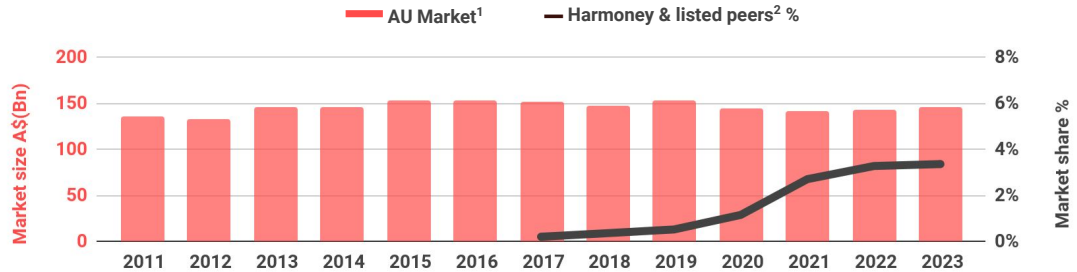
# Continue AU expansion, a large addressable market

## AU replicating in 9x market



## Huge potential for Harmoney in \$145bn market<sup>1</sup>

- Stable market and an enormous growth opportunity for Harmoney as consumers gravitate online, with the vast majority of personal lending still provided by banks and traditional lenders.
- Harmoney's Australian new customer lending in FY23 was \$177m. Australia is mirroring New Zealand performance and is on track for these new customers to add ~140% in repeat lending over the next six years, at minimal CAC.



<sup>1</sup> Source RBA, 'D2 Lending And Credit Aggregates - Credit; Other personal', which covers all personal credit (non-business, non-housing/mortgage), incl. e.g. personal loans, car loans and credit cards.

<sup>2</sup> Listed personal lending peers comprise Wisr, MoneyMe & Plenti with loan balances sourced from their latest market trading updates.

# Stellare<sup>®</sup> 2.0

## Core banking + Automation = Market opportunity

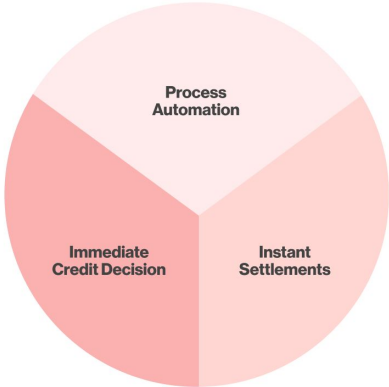
### Core banking - Cloud native

Implemented a Tier 1 cloud native core banking suite, used by Global Banks.



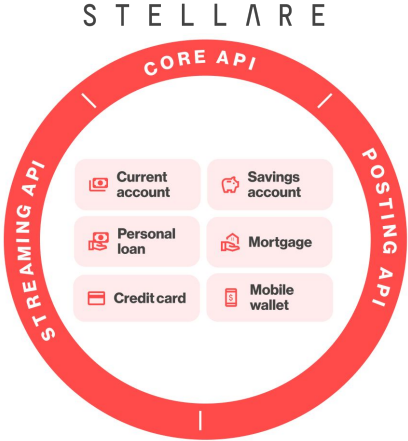
### 100% Process automation

Automated platform enabling scale, speed and a superior customer experience, making the complex feel simple.



### Market Opportunity

Core banking platform plus process automation reduces implementation time, complexity and risk - growing market opportunities.



# Stellare<sup>®</sup> 2.0 improved customer experience drives conversion

## Australian new customer launch complete

After a 12 month build and launch by our internal team, Stellare<sup>®</sup> 2.0 is starting to deliver customer value in the Australian market:

100%

Automation Instant Credit Decision

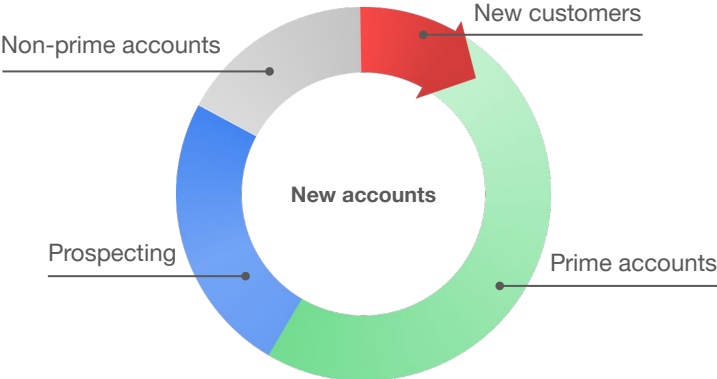


20x

Faster Onboarding Application to Settlement

## Customer growth

Stellare<sup>®</sup> 2.0 focus now moves to launching improved features and products to convert more **prime accounts** to **new customers**.



# Stellare<sup>®</sup> 2.0 unlocks an expanded product offering

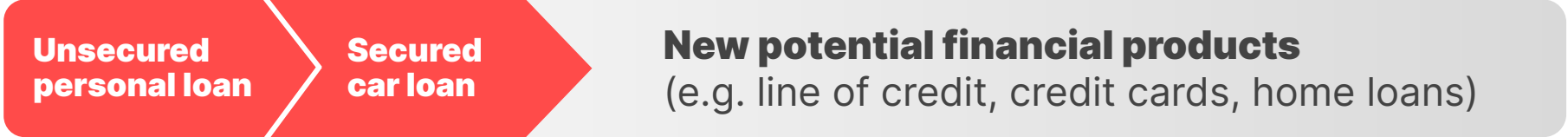
Stellare<sup>®</sup> 2.0 represents a significant modernisation of our technology stack, and allows us to innovate on new products faster than ever before, while delivering further efficiency and scalability.

**25x**

Code releases per week compared to Stellare<sup>®</sup> 1.0

**12%**

Technology cost saving run rate on 1H24 from infrastructure and headcount efficiencies





# Outlook - Targeting 20% Cash RoE

## Interest rates & asset quality

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Ability to pass through targeted interest rate increases to maintain **9-10% net interest margin**.

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Funding costs managed with a diversified funding panel of **three Big 4 banks** and three mezzanine funders with **89%** of borrowings hedged.

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High quality diversified loan book **74%** employed in either professional, office or trades roles. Low arrears rate.

## Growth outlook

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Harmony's consumer-direct model is taking market share from banks in **\$145bn** Australian market.

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Working with **Google** to implement leading **AI** technology to further enhance customer experience, lowering CAC and further reducing cost to income ratio.

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**Stellare® 2.0** rollout across entire business (AU & NZ) set to increase revenue, lower costs and drive higher profitability.

## FY24/FY25 outlook

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### FY24 Outlook

- Continued **loan book growth**
- Net interest margin of **9%**
- **Positive** Cash NPAT

### FY25 Outlook

- Targeting a **20% Cash Return on Equity run rate in FY25** (Cash NPAT/Equity).

# Outlook continued: 20% Cash RoE run rate in FY25

## Pathways to 20% Cash RoE

- At the current equity of ~\$50m, Cash NPAT of \$10m delivers 20% Cash RoE.
- 20% Cash RoE run rate in FY25 is in reach through loan book and/or risk adjusted income<sup>1</sup> growth.
- Table shows historically achieved risk adjusted income % and loan book growth pathways to reaching 20% Cash RoE.<sup>2</sup>
- Acquisition and operating expenses include a 5% inflation buffer, although historically stable or falling due to efficiency gains.<sup>3</sup>

1. Risk adjusted income (RAI) is income after funding costs and incurred credit losses.

2. Risk adjusted income %: 1H24: 5%, FY23: 6%. Loan book: Two year cumulative annual growth rate (CAGR) 33%.

3. Customer acquisition expenses reduced in each of 1H24 and FY23. Cash operating expenses have remained flat in 1H24 on FY23.

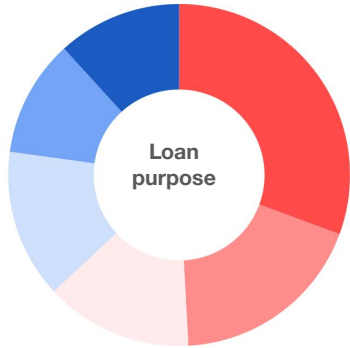
## Average loan book required at RAI%

Risk adjusted income	6.0%	5.5%	5.0%
Required average loan book (\$m)	<b>783</b>	<b>855</b>	<b>940</b>
<i>Required growth from current loan book</i>	4%	13%	24%
Risk adjusted income (\$m)	<b>47</b>	<b>47</b>	<b>47</b>
Customer acquisition expenses (\$m)	(11)	(11)	(11)
Cash operating expenses (\$m)	(27)	(27)	(27)
<b>Cash NPAT</b>	<b>9</b>	<b>9</b>	<b>9</b>
Average equity	45	45	45
<b>Cash RoE</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>

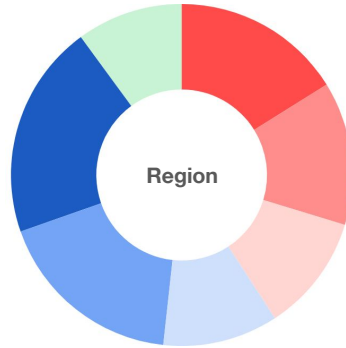
**Disclaimer:** This is an indicative model of Harmony's business. It is not a forecast but instead represents an illustrative model extrapolating costs and historically achieved risk adjusted income levels to various average loan book scenarios and may vary due to changes in a range of underlying assumptions or economic factors.

# Appendix

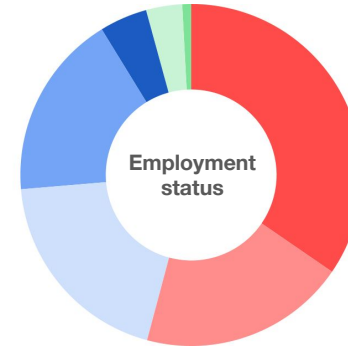
# \$756m Loan Book



- Debt consolidation - 31%
- Home improvements - 19%
- Life events - 14%
- Recreation - 14%
- Vehicle - 11%
- Other - 11%

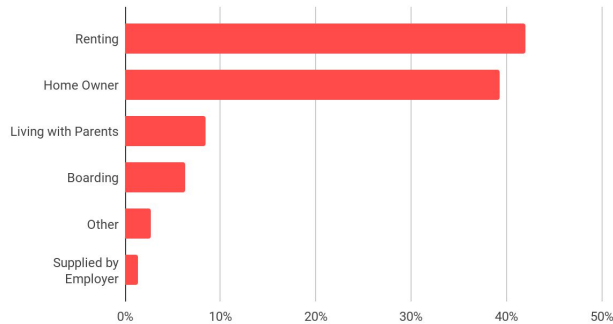


- Australia - NSW/ACT - 16%
- Australia - QLD - 14%
- Australia - VIC - 11%
- Australia - Other - 11%
- NZ - Auckland - 18%
- NZ - North Island (ex. AKI) - 20%
- NZ - South Island - 10%

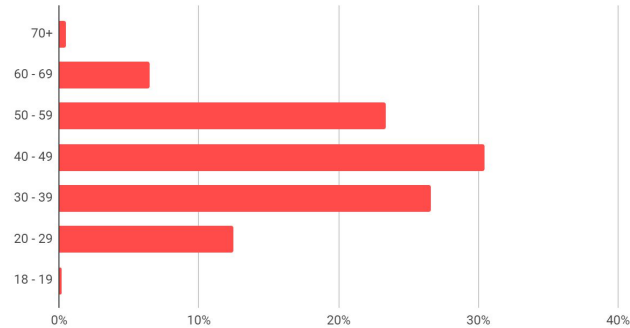


- Office - 35%
- Trade - 20%
- Professional - 19%
- Others - 18%
- Self-Employed - 4%
- Unskilled - 3%
- Home - 1%

## Residential Status



## Age of Customers



# Profit and loss

	6 Months ended 31 December 2023 \$'000	6 Months ended 30 June 2023 \$'000	6 Months ended 31 December 2022 \$'000
Interest income	60,323	56,013	49,526
Other income	70	985	549
<b>Total income</b>	<b>60,393</b>	<b>56,998</b>	<b>50,075</b>
Interest expense	26,026	21,867	17,957
Incurred credit losses	15,643	14,525	10,027
<b>Risk adjusted income</b>	<b>18,724</b>	<b>20,606</b>	<b>22,091</b>
Customer acquisition expenses	5,414	5,777	6,539
<b>Net operating income</b>	<b>13,310</b>	<b>14,829</b>	<b>15,552</b>
Personnel expenses	5,297	5,481	5,512
Customer servicing expenses	3,208	3,090	3,084
Technology expenses	2,670	2,382	2,434
General and administrative expenses	1,629	1,491	2,179
<b>Cash operating expenses</b>	<b>12,804</b>	<b>12,444</b>	<b>13,209</b>
Income tax (expense) / benefit	-	-	-
<b>Cash NPAT <sup>1</sup></b>	<b>506</b>	<b>2,385</b>	<b>2,343</b>
<i>Non-cash adjustments</i>			
Movement in expected credit loss provision	533	(3,240)	(4,587)
Share based payment expenses	(114)	(1,937)	-
Depreciation and amortisation expenses	(1,522)	(1,406)	(1,139)
<b>Statutory loss after income tax</b>	<b>(597)</b>	<b>(4,198)</b>	<b>(3,383)</b>

<sup>1</sup> Cash NPAT provides a more accurate representation of the underlying profitability of the business, adjusting for the impact of non-cash items, most significantly the movement in expected credit loss provision, which is a non-cash provision for credit losses that may occur in future financial years from the existing loan book. With GAAP requiring recognition of an expected credit loss provision expense immediately on origination of a new loan, without any indication of loan impairment and significantly ahead of recognition of the interest income priced to compensate for the expected level of credit loss risk, the expected credit loss provision expense will suppress statutory net profit during periods of loan book growth, all other things being equal.

# Key operating and financial metrics

	6 Months ended 31 December 2023	6 Months ended 30 June 2023	6 Months ended 31 December 2022
<b>Loan book value and growth</b>			
Total originations (\$'000)	165,932	185,698	240,536
New customer originations (\$'000)	93,379	107,425	146,170
Existing customer originations (\$'000)	72,553	78,273	94,366
Loan book (period end) (\$'000)	756,329	744,000	701,035
Loan book (average) (\$'000)	748,939	722,823	643,371
Average interest rate (%)	16.1%	15.5%	15.4%
Average funding rate (%)	7.2%	6.3%	5.7%
Net interest income (%)	9.2%	9.4%	9.8%
Risk adjusted income (%)	5.0%	5.4%	6.7%
<b>Loan book quality</b>			
Incurred credit loss (\$'000)	15,643	14,525	10,027
Incurred credit loss to average gross loans (%)	4.2%	4.0%	3.1%
Provision rate (%)	4.8%	4.9%	4.8%
<b>Productivity metrics</b>			
Customer acquisition to origination ratio	3.3%	3.1%	2.7%
Costs to income ratio	23.9%	27.7%	28.7%

# Cash Flow

	6 Months ended 31 December 2023 \$'000	6 Months ended 30 June 2023 \$'000	6 Months ended 31 December 2022 \$'000
<b>Cash flows from operating activities</b>			
Interest received	59,220	54,427	48,131
Interest paid	(27,527)	(21,375)	(17,359)
Fee income rebated	(1,076)	(887)	(797)
Payments to suppliers and employees	(21,169)	(17,586)	(20,617)
<b>Net cash generated by operating activities</b>	<b>9,448</b>	<b>14,579</b>	<b>9,358</b>
<b>Cash flows from investing activities</b>			
Net advances to customers	(25,302)	(62,258)	(119,376)
Payments for software intangibles and equipment	(2,330)	(2,602)	(2,417)
<b>Net cash used in investing activities</b>	<b>(27,632)</b>	<b>(64,860)</b>	<b>(121,793)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from finance receivables borrowings	13,329	38,402	105,586
Net proceeds from debt financing	2,500	-	5,000
Principal element of lease payments	(250)	(220)	(254)
<b>Net cash generated by financing activities</b>	<b>15,579</b>	<b>38,182</b>	<b>110,332</b>
Cash and cash equivalents at the beginning of the period	43,454	55,886	56,805
<b>Net decrease in cash and cash equivalents</b>	<b>(2,605)</b>	<b>(12,099)</b>	<b>(2,103)</b>
Effects of exchange rate changes on cash and cash equivalents	133	(333)	1,184
<b>Cash and cash equivalents at the end of the period</b>	<b>40,982</b>	<b>43,454</b>	<b>55,886</b>

# Balance Sheet

	31 December 2023	30 June 2023	31 December 2022
	\$'000	\$'000	\$'000
Cash and cash equivalents	40,982	43,454	55,886
Trade and other assets	2,671	1,968	2,495
Finance receivables	758,861	745,790	701,712
Expected credit loss provision	(36,500)	(36,919)	(33,840)
Property and equipment	3,372	3,717	148
Intangible assets	12,831	11,568	10,354
Deferred tax assets	11,740	8,467	7,868
Derivative financial instruments	-	7,677	9,740
<b>Total assets</b>	<b>793,957</b>	<b>785,722</b>	<b>754,363</b>
Payables and accruals	4,792	6,434	6,918
Borrowings	737,276	720,503	686,091
Provisions	-	1,524	3,667
Lease liability	3,280	3,506	-
Derivative financial instruments	3,091	-	-
<b>Total liabilities</b>	<b>748,439</b>	<b>731,967</b>	<b>696,676</b>
<b>Net assets</b>	<b>45,518</b>	<b>53,755</b>	<b>57,687</b>
Share capital	124,561	123,985	123,985
Foreign currency translation reserve	(80)	(367)	1
Share based payment reserve	2,961	3,820	1,688
Cash flow hedge reserve	(2,228)	5,416	6,914
Accumulated losses	(79,696)	(79,099)	(74,901)
<b>Equity</b>	<b>45,518</b>	<b>53,755</b>	<b>57,687</b>