

ASX Announcement

23 May 2024

## Pepper Money Limited (ASX:PPM) Annual General Meeting - Chair and CEO Address

Attached is the text of the following addresses to be delivered at the Company's Annual General Meeting being held today:

- Address from the Chair, Mr Michael Culhane; and
- Address from the CEO, Mr Mario Rehayem.

This announcement has been authorised for release by the Company Secretary.

For further information:

Company Secretary  
**John Williams**  
Pepper Money Limited  
T: +61(2) 7227 3811  
[jwilliams@peppermoney.com.au](mailto:jwilliams@peppermoney.com.au)

ENDS

### 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 that were being 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.peppermoney.com.au>

### Investor relations

Gordon Livingstone  
Reunion Capital Partners  
M: +61 (0) 417 695 138  
[glivingstone@reunioncapital.com.au](mailto:glivingstone@reunioncapital.com.au)

**Pepper Money Limited**

ANNUAL GENERAL MEETING

Chair and CEO Addresses

Thursday 23 May 2024

## Chair's address to shareholders

Pepper Money's guiding principle has always been to "help people succeed." Despite the headwinds of interest rate hikes and challenging macroeconomic and market conditions, Pepper Money achieved significant business and performance milestones throughout 2023.

Overall we delivered a Net Profit After Tax on a Pro-forma basis of \$111.1 million for 2023. While NPAT was 22% below the prior comparable period this was a solid achievement in a year that saw intense competition and continued global economic and geopolitical volatility.

Our Australian Mortgage business demonstrated resilience, delivering robust results with Originations amounting to \$3.9 billion in 2023. The competitive landscape for mortgages in Australia was particularly intense, especially during the first three quarters of 2023, with major banks vying for market share. Anticipating this environment, we shifted our focus in the latter half of 2022 to build share in our Non-conforming segments. Consequently, the mix of Originations for Australian residential Mortgages shifted to 65% Non-conforming in 2023, up from 48% in 2022. Although total Originations for our Mortgage business, including New Zealand, declined by 43% year on year, we began to see stabilisation, with Q4 2023 Originations growing 35% on Q3 2023 and 20% on Q4 2022.

Our Asset Finance division achieved record Originations in 2023 of \$3.4 billion, marking a 20% increase on 2022. This growth was bolstered by our strong position in the electric vehicles sector and the robust performance of our Novated Lease channel.

In late December 2023, we also successfully completed the acquisition of the New Zealand prime residential mortgage portfolio of HSBC. This acquisition brought an additional 2,004 customers into the Pepper Money fold and added NZ\$1.1 billion in Prime residential mortgages in New Zealand to our business.

Since its inception in 2000, Pepper Money has evolved into one of the largest non-bank lenders in Mortgages and Asset Finance. We have an exceptional track record in debt capital markets, supported by a diverse investor base, both domestic and global, that continues to fund our business. From 2003 to the end of 2023, we have successfully raised over \$38.6 billion across 61 transactions. Our mortgage and asset finance securitisation programmes have consistently called every deal at the first available call date, demonstrating their strength. This robustness and the depth of our relationships with investors led to Pepper Money being awarded the prestigious KangaNews Australian Nonbank Financial Institution Issuer of the Year 2023, an accolade based solely on polling participants in the Australian and New Zealand debt markets.

Whole Loan Sales have been a longstanding component of our Mortgage business's funding strategy. The substantial growth we've achieved in Asset Finance enabled us to

expand the programme to this asset class, culminating in our first Whole Loan Sale at the end of 2023. Whole Loan Sales generate value by selling the loans we've originated while retaining the servicing of the loans, thereby earning the business a continuous servicing fee and maintaining the same level and quality of service to the customer. Given the scale of our Asset Finance portfolio, with Lending and Servicing Assets Under Management closing 2023 at a combined \$6.2 billion (a 31% increase on the prior comparable period), Whole Loan Sales will continue to be a key part of the ongoing funding and capital management strategy for the Asset Finance business.

Sustainability is deeply ingrained in Pepper Money's foundations. We strive to create sustainable value for our customers, employees, communities, and shareholders. In 2023, we made significant strides in developing a sustainable business model that benefits not only Pepper Money but all our stakeholders.

Our foundational mission to "help people succeed" places people at the heart of our business. Diversity and inclusion have always been integral to Pepper Money's DNA, as evidenced by our employee profile. As of 31 December 2023, our team comprised 55% females and 45% males, with 45% of our Senior Managers being female, compared to the 38% average in the Financial Services and Insurance sector in Australia. Our average total remuneration gender pay gap stood at 22.9%, ahead of the industry comparison group of 31.1%. Our employees remained highly engaged, placing the company in the top 10% of companies globally with a 2023 engagement score of 75. Over 95% of our employees participated in our annual Employee Engagement Survey.

The enduring strength of Pepper Money's employee engagement is driven by our culture and values of Can Do, Balanced, and Real. Recognising that culture and values are embedded across an organisation when led from the top, we launched the Pepper Money Leadership Principles in 2023. Our leaders provide guidance, inspiration, and motivation to support our people in achieving their goals. They help create a vision and rally people around a common cause. The Pepper Money Leadership Principles underpin the behaviours we expect our leaders to role model to ensure the business achieves its strategic goals.

Pepper Money has developed a deep understanding of customer niches, typically those underserved by banks. 2023 was a challenging year for many, including our customers, as household income was impacted by rising interest rates and inflationary pressures, and consumer confidence deteriorated. Our robust credit and underwriting capabilities and risk approach helped us maintain Loan Losses as a percent of AUM at 0.28%, in line with the long-term average. The diligence that Pepper Money applies to the credit process helps protect customers from overcommitting. To date, Pepper Money has assisted 455,248 customers and, since our inception over 23 years ago, we have written off only 0.4% of the \$58 billion in loans originated.

Pepper Money remains committed to good governance, transparency, and ensuring accountability is aligned across the business. We recognise the need to embed strong

corporate governance and responsible lending, as these principles are fundamental to achieving our strategy and delivering on our mission.

Our initiatives in response to climate change, implemented over several years, are progressing well. In 2021, Pepper Money celebrated our 21st birthday by planting 7 hectares of trees across the markets we operate in – Australia, New Zealand, and the Philippines. As these trees continue to grow and mature, we are proud of how this gift is supporting a move to offset approximately 7,000 tonnes of CO2 emissions over 50 years. Our strong position in EV lending means we have financed 8,986 electric vehicles in Australia since we commenced this programme in 2015, offsetting over 39,000 tonnes of CO2 emissions by the end of 2023 and projected to offset up to 236,000 tonnes over the lifetime of these vehicles.

As we look ahead, we anticipate that market conditions will moderate the capital required to fund the business. In response to these expected short-term trends, the Board has explored opportunities to return capital to shareholders. Consequently, effective from the 2024 financial year, the Board has revised the Company's Dividend Policy to increase the annual payout ratio to 30% - 60.0% of Pro-forma NPAT, up from the previous 30% - 40.0%.

As part of this ongoing disciplined approach to capital management, the Board also announced an on-market share buy-back of up to 10% of the Company's shares over a 12 month period as another option to deliver returns to shareholders.

Your Board was pleased to announce a fully franked final dividend for 2023 of 5.0 cents per share, representing a payout ratio of 37.5% of the Pro-forma Net Profit After Tax for the period 1 July to 31 December 2023. This resulted in Pepper Money delivering total dividends of 8.6 cents per share to shareholders for the 2023 financial year, yielding an annualised dividend of 6.4%.

As you know from our Notice of Meeting, two of our Directors are standing for election today, Des O'Shea and Mike Cutter. I will ask each of them to say a few words when we come to the formal part of the meeting.

I would like to thank Mario, his Executive team and all of our employees across Australia, New Zealand and the Philippines who have contributed to the success that the Company has achieved over the last 12 months.

As announced earlier this month, this will be my last Annual General Meeting as Chair of Pepper Money.

I am very proud to have founded our Australian business more than 23 years ago. Over the years there have been literally hundreds of key individuals who have contributed to the success of Pepper in Australia and globally. From our founding CEO Richard Klemmer to our current CEO Mario Rehayem, leading based on Pepper's core values

has been central to our success. We have also had the benefit of great shareholders over the years beginning with a Texan based group at the formation of the company in 2000 all the way through to Seumas Dawes becoming a key shareholder in 2010 and then KKR helping to take us private in 2017. Over the past 6 years KKR have helped us build out globally and in particular have provided growth capital for the Australian business that allowed us to go public again in 2021.

That all being said it is the day to day blocking and tackling, the team all pulling in the same direction and the hundreds of thousands of customers we have helped in Australia that makes me the most proud. Pepper and firms like Pepper have allowed hard working Australians to fulfil their dreams by buying a family home where others couldn't help. The same goes for Asset Finance business. Ken and his team have built an incredible platform that by using cutting edge technology allows Australians to buy a vehicle at a great cost of finance and in many cases where financing is not available from other providers.

So, more than two decades on I leave with the business in a very strong position led by a wonderful, talented, hand-picked and long tenured management team of whom I am immensely proud. I am highly optimistic about the future prospects of the business.

Akiko Jackson has been elected by the Board as the successor Chair. Akiko has been part of the Board since we went public again in May 2021 and she and her fellow Board members have been absolutely phenomenal to work with. I know that Akiko will continue to carry the Pepper torch with aplomb and the entire Board are 100% behind her. I will ask Akiko to say a few words after Mario has completed his address.

On behalf of the Board, I extend our gratitude to shareholders for their continued support of our business through their investment in the Company. We also wish to express our appreciation to our partners, both business and community, who contribute significantly to shaping Pepper Money into the company it is today.

I will now hand over to Mario Rehayem, CEO, to give his address.

## CEO's address to shareholders

Thanks Mike and good afternoon everyone. Before I turn to provide some comments on 2024 and the operating outlook, I would like to just run through some of our key highlights for 2023.

We delivered Originations of \$7.3 billion and while (24)% lower than the prior comparable period, we achieved record Asset Finance Originations of \$3.4 billion, up 20% on PCP.

While Mortgage Originations at \$3.9 billion, were down (43)% on 2022 as market conditions started to show signs of stability over the latter part of calendar year 2023 - and major banks started to wind down cash-back offers - the decline in Originations started to plateau and our second half Mortgage Originations of \$2.2 billion grew by 28% on the first half of 2023.

Total AUM - which is a key foundation of future profitability - closed 2023 at \$19.7 billion - the highest the business has achieved in its history. Lending AUM at \$18.3 billion was marginally up from 2022 close. Servicing AUM - which includes the AUM transferred under our Whole Loan Sale program - at \$1.4 billion was up 43% on prior comparable period.

Funding is a core competency of the business. Over 2023 we raised a record \$5.4 billion in the public markets - up 7% on 2022. In addition to our seven Public Securitizations, we raised a further \$1.6 billion in Private Term Securitizations and Whole Loan Sales. Warehouse capacity closed the year at \$9.3 billion, and we continue to maintain 4 - 6 months head room, meaning we are well positioned to capture growth as it returns.

The diversification of the portfolio continues to deliver benefits, as we were able to capture growth opportunities in Asset Finance as market conditions remained soft in Mortgages. Asset Finance has grown to contribute 43% of Total Operating Income in 2023 up from 37% last year, with Mortgages now at 55%.

We continue to be disciplined in credit risk management. The increase of (6) basis points in Loan Loss as a percent of Lending AUM on PCP was driven by mix - with Asset Finance AUM as a percent of Total Lending AUM increasing from 26% in 2022 to 31% in 2023. Loan Losses as a percent of AUM remain within long term averages.

Customers are at the forefront of how we do business given our mission to "help people succeed" - and customer wellbeing forms part of this mission. Alongside welcoming over 89,000 new customers to Pepper Money over calendar year 2023, we also made it a priority to incorporate proactive practices to help our existing customers navigate increasingly difficult economic conditions - which we all experienced over the last year as both interest rates and inflation rose.

Our customer value proposition is demonstrated through our Customer Net Promoter Scores. In 2023 we saw increases in product advocacy across all core Pepper Money products with results considerably ahead of the industry.

I have spoken in the past about how we have built a scaled technology platform, supporting automation. This, coupled with our disciplined approach to cost management, saw Normalised Pro-forma Operating Expenses increase by (1)% - from \$155.9 million in 2022 to \$157.7 million in 2023. Normalising removes the impact of Stratton, acquired 1 July 2022, from the operating cost base, as well as the pro-forma cost of acquisitions.

Pro-forma NPAT for 2023 at \$111 million was (22)% below PCP - with lower volumes in Mortgages coupled with swap rate volatility, increased provisioning for loan losses as Asset Finance AUM grew - all impacting profit flow through for 2023.

Turning now to 2024 - I am encouraged by the general trends we are seeing to date in 2024.

Stability is returning to the Mortgage market - as the intense competition amongst the major banks experienced over the 2nd half of 2022 and for most of 2023 has now eased.

Equifax recently reported that refinance activity had dropped 32% in Q1 2024 on PCP, and I believe this is an outcome from the market cooling market and banks retreating from cash back and low ROE mortgage offerings.

While still early days, we are starting to see demand in Mortgages pick up, with our application growth returning. For the first quarter of 2024 our Mortgage applications increased by 9.5% on Quarter 1 2023. This application growth is being supported in part by new products - with our SMSF product launched October 2023, performing ahead of plan. Likewise, we are seeing strong application growth in our small balance Commercial Real Estate product.

Customers continue to prove resilient and are managing well in a more challenging environment. Some relief will also come later this year given the tax cuts that will roll through from July.

Stability is returning to funding spreads. To date, we have executed on two public term securitisations - our first RMBS in 2024 priced 30bps inside the last deal done in 2023, and our first ABS for 2024 - Sparkz 8 - had a weighted average margin of 1.75% compared to Sparkz 7 in August 2023 at 2.20%.

These trends in both the markets we serve and in capital markets is helping Net Interest Margin and we are seeing the rate of compression really start to ease.

We continue to keep a watch on a number of market and macro factors:

- Inflation is proving to be a lot stickier than what both the RBA and economists expected. This continues to place pressure on discretionary spend.
- Equifax noted in their Quarter 1 Consumer Credit Insights report that Auto Loan 30+ arrears is now surpassing pre covid levels with a notable jump in late-stage



arrears. While we are still inside long-term average for credit performance, we are keeping a close watch on Asset Finance loan performance.

Pepper Money remains, as always, disciplined in how we are:

- managing between growth and value;
- managing credit performance by balancing between risk and returns;
- driving operational efficiency to deliver improved underlying margin; and
- how we continue to introduce new products that create financial inclusion for the underserved people of Australia and New Zealand.

Before I hand back to our Chair, I would like to express sincere thanks on behalf of the Board, the business and myself personally for the enormous contribution Mike Culhane has made to building Pepper Money to the Company it is today. Mike founded Pepper back in 2000. It was through his dedication and focus on identifying and driving market opportunities that saw Pepper Money move from a specialist lender to the diversified, scaled business it is today. I have personally learnt so much from Mike. He has always been there to both guide, support and importantly to challenge myself and the wider business. He has truly been instrumental in making Pepper Money the success it is today.

Thank you and I will now pass back to our Chair Mike Culhane.