

ASX Announcement
29 August 2024

Pepper Money 1H 2024 Results Announcement

Result Highlights

- **Statutory NPAT¹ and Pro-forma NPAT² of \$46.1 million.**
- **Profit pre-Provision³ of \$108.0 million grew 13% on prior corresponding period (PCP).**
- **Total Originations of \$3.3 billion.**
- **Total AUM of \$19.3 billion, up 2% on PCP:**
 - **Mortgage Originations of \$1.8 billion. Mortgage AUM closed June 2024 at \$11.3 billion.**
 - **Asset Finance Originations of \$1.4 billion. Asset Finance AUM closed June 2024 at \$5.7 billion.**
 - **Servicing AUM closed June 2024 at \$2.3 billion, up \$1.4 billion on PCP of \$0.9 million.**
- During the reporting period, Pepper Money revised its accounting treatment of ongoing trail commission payable in respect of mortgages originated through brokers in Australia and New Zealand. As a result, the Group reclassified Trail Commission Expense from Lending Expense to Net Interest Income.
 - **Net Interest Income, after the change in accounting, was \$170.9 million.**
 - **Total Net Interest Margin (NIM) was 1.92% and improved 11 bps on 2H 2023 NIM⁴.**
 - **Mortgages NIM at 1.60% improved 9 bps on 2H 2023 NIM⁴.**
 - **Asset Finance NIM at 2.52%, improved 13 bps on 2H 2023.**
- **Loan Losses as a percentage of Lending AUM⁵ increased from 0.28% in 1H 2023 to 0.45% in 1H 2024.** This movement was driven by increased Specific Provisions in Asset Finance, net of Collective Provision releases, reflecting heightened insolvencies across the market and an increase in late-stage arrears. Loan Loss Expense increased by \$(16.9) million over PCP to \$41.6 million. The Company continues to be well provided, with Loan Loss Provisions of \$120.8 million representing a Coverage ratio of 0.71%.
- **Total Operating income⁶ of \$186.0 million.**
- **Total Expenses⁷, reduced by 2% versus PCP to \$119.6 million.**
- **Two Public Term Securitisations have been completed** over the first half of 2024, raising over \$1.4 billion.
- **Four Whole Loan Sales** were executed during the first half of 2024, totalling \$1.1 billion in assets.
- **Warehouse capacity⁸ closed 30 June 2024 at \$9.2 billion.**
- **Interim fully franked dividend of 5.0 cents per share declared, up 1.5 cents per share from the 2023 Interim dividend.**
- The acquisition of the residual 35% shareholding in **Stratton Finance Pty Ltd** was completed on 28 March 2024, funded from operating cash flows.
- Pepper Money remains **well funded to support future growth with unrestricted cash of \$99.8 million** as at 30 June 2024.

Financial and Operational Metric Summary

	Half Year Ending		June 2024 vs		
	June 2024	December 2023	June 2023	December 2023	June 2023
Statutory NPAT	\$46.1m	\$56.7m	\$52.0m	(20)%	(11)%
Pro-forma NPAT ²	\$46.1m	\$59.1m	\$52.0m	(22)%	(11)%
Profit pre-Provisions ³	\$108.0m	\$96.2m	\$95.8m	+12%	+13%
Originations	\$3.3bn	\$3.8bn	\$3.5bn	(14)%	(7)%
Lending AUM	\$17.0bn	\$18.3bn	\$18.0bn	(7)%	(6)%
Total AUM	\$19.3bn	\$19.7bn	\$18.9bn	(2)%	+2%
Net Interest Margin (NIM) ⁴	1.92%	1.81%	1.92%	+11 bps	-
Loan Losses % Lending AUM	0.45%	0.24%	0.28%	(21) bps	(17) bps
Total Operating Income	\$186.0m	\$196.6m	\$193.5m	(5)%	(4)%
Pro-forma Operating Expenses excluding Impairment	\$93.4m	\$92.2m	\$94.5m	(1)%	+1%
Pro-forma Total Expenses	\$119.6m	\$115.7m	\$122.4m	(3)%	+2%
Interim Dividend (per share)	5.0 cents		3.5 cents		+1.5 cents
Interim Dividend Payout Ratio	47.5%		30.0%		
Interim Dividend	\$21.9m		\$15.6m		+40%

Pepper Money Limited (ASX: PPM) today announced its results for the 6-month period ending 30 June 2024 (1H 2024). The Company reported Statutory and Pro-Forma Net Profit After Tax (NPAT) of \$46.1 million for the first half of 2024, which was down (11)% on PCP.

Commenting on the Company's first half performance, **Pepper Money's CEO, Mario Rehayem**, said: *"Pepper Money delivered strong results despite ongoing difficult market conditions. For the half year ended 30 June 2024, the Group reported Statutory and Pro-forma NPAT of \$46.1 million. This result reflects a (4)% reduction in Total Operating Income versus PCP partially offset by **Total Expenses** which were 2% lower than PCP. Importantly our **Profit pre-Provision** in 1H 2024 was \$108.0 million, up from \$95.8 million in the first half of 2023, a growth of 13% on PCP, and an increase of 12% on 2H 2023 (2H 2023: \$96.2 million)".*

"We welcomed 37,357 customers to Pepper Money over the half. We originated \$3.3 billion in total, with Mortgages at \$1.8 billion growing 6% on PCP. Asset Finance Originations, at \$1.4 billion, were down from our all-time high in 1H 2023 (\$1.8 billion), a strong result given prevailing market conditions".

*"Our focus on innovation and our mission to **"help people succeed"** – continues to guide our strategy and support our new product development. Our Self-Managed Super Fund ("SMSF") mortgage – Super Smart – launched in October 2023 continues to deliver strong growth. We also launched Sharia mortgage lending in March 2024, and while it is early days, we are encouraged by the pipeline being built".*

"We are starting to see expansion in Net Interest Margin (NIM), driven by improved funding markets, stabilisation in BBSW / swap rates, as well as our ability to flex our Originations profile to higher yielding products such as Non-Conforming mortgages. NIM for the half at 1.92%, was up 11 bps on 2H 2023 on a like for like basis".

“Whole Loan Sales have long been part of the funding and capital management strategy of Pepper Money. Over the first half of 2024 we continued to build on our Whole Loan Sale strategy, executing our first Non-Conforming mortgage Whole Loan Sale as well as continuing our Prime mortgage Whole Loan Sale – a program we started in 2016. We also completed our second Asset Finance Whole Loan Sale”.

“Our scaled platforms and operational processes continue to deliver benefits – with our Pro-forma Expenses reducing 2% on 1H 2023”.

“Our focus on capital management has seen the Board declare an Interim dividend of 5.0 cents per share – a payout ratio of 47.5% on Pro-forma NPAT for the six months to 30 June 2024. This delivers to our shareholders an increase of 1.5 cents per share on the 2023 Interim dividend”.

Originations

The Company delivered \$3.3 billion in **Originations** over 1H 2024:

- **Mortgage** Originations at \$1.8 billion for the first half grew 6% on PCP. Mortgage Origination mix for 1H 2024 was split 60% Non-Conforming, 40% Prime. Mortgage Origination growth on PCP was supported by strong performance across all mortgage products including our SMSF and Commercial Real Estate lending.
- **Asset Finance** delivered Originations of \$1.4 billion for 1H 2024, down (19)% on PCP. The decline in Originations versus PCP reflects both underlying soft market conditions as well as the impact of the removal of Government tax incentives, effective 1 July 2023, impacting growth of the Commercial segment. Novated Lease Originations continued to perform strongly, growing 56% on PCP.

Assets Under Management (AUM)

Total AUM closed June 2024 at \$19.3 billion, representing a 2% increase over PCP, (2)% lower than December 2023.

Total Lending AUM closed June 2024 at \$17.0 billion:

- **Mortgage AUM** at \$11.3 billion, was down from \$12.4 billion at June 2023 and \$12.6 billion at December 2023, given higher Whole Loan Sales in 1H 2024, coupled with soft market conditions.
- **Asset Finance AUM** closed June 2024 at \$5.7 billion, an increase of 1% on June 2023 and in line with December 2023. A \$500 million Whole Loan Sale was executed in June 2024.

Servicing AUM increased to \$2.3 billion June 2024, up from \$0.9 billion June 2023 and from \$1.4 billion December 2023. The increase in Servicing AUM reflects the Whole Loan Sales detailed above, as the First Loss equity is sold, while retaining the Servicing of the assets.

Net Interest Margin (NIM)

During the period Pepper Money implemented a change in the accounting treatment for trail commissions payable in respect of mortgages originated through brokers in Australia and New Zealand, to align with market practice following a shift across the banking industry. As the impact was deemed immaterial, prior periods have not been restated in the financial statements. The change in treatment resulted in a reduction in **Net Interest Income** of \$(11.1) million with a **corresponding offset in Lending Expense** in the period. For comparative purposes NIM has been revised in prior periods.

Net Interest Margin of 1.92% for 1H 2024 was in line with PCP, and **improved 11bps versus 2H 2023** on a like for like basis:

- **Mortgages** NIM at 1.60% improved by 9 bps versus the 2H 2023. Customer rate increases were assisted by stabilisation of BBSW, and lower customer attrition given the RBA significantly slowed down the pace of interest rate increases – with only one OCR increase over 2H 2023 and no increases over 1H 2024.

- **Asset Finance NIM** at 2.52% improved 13 bps versus 2H 2023 given stable swap rates / cost of funds, coupled with the positive flow through of pricing initiatives implemented over the second half of 2023.

Credit performance

Loan Loss Provision Coverage⁹ remains strong at 0.71% up from 0.65% in December 2023.

Loan Losses Expense of \$41.6 million increased from \$24.7 million PCP. Key drivers of Credit Expense were:

Mortgages:

- Collective Provisions: \$0.4 million was released – an improvement of \$0.9 million on PCP driven by lower AUM.
- Specific Provision: were \$(3.2) million - up \$(1.2) million from PCP, and in line with the long-term average.

Asset Finance:

- Collective Provisions: \$4.7 million was released (versus \$2.9 million released in 1H 2023), following the Whole Loan Sale completed in June 2024 (1H 2023: \$Nil). The Collective Provision release also reflects favourable customer mix as Originations over 1H 2024 continued to be weighted more heavily to customers with the lowest probability of default (Novated Lease and Tier A customers).
- Specific Provisions: increased to \$(43.6) million in 1H 2024 from \$(25.1) million in 1H 2023 driven by an increase in insolvency activity and an increase in late-stage arrears. Asset Finance remains well provided, with the Provision Coverage ratio of 1.57% remaining constant from 2023 year end.

Post Model Overlay Provision at 30 June 2024 of \$10.0 million, reduced by \$5.8 million compared to 30 June 2023. This reduction related to the recalibration of the Asset Finance Expected Credit Loss (ECL) model to reflect the actual performance of the Novated Lease portfolio and was taken over the second half of 2023.

Discretionary cost management

1H 2024 Pro-forma Total Expenses reduced by \$2.8 million, 2% on PCP. Employee expenses increased only marginally from \$65.0 million to \$65.3 million, as ongoing benefits from the Company's scaled technology platform, supporting automation, drove efficiencies and offset the impact of salary and wage inflation. Other than Corporate Interest, all other expenses reduced on PCP. Corporate Interest increased \$(2.1) million versus 1H 2023, given the impact of higher BBSY versus prior comparable period.

Funding and capital

Total **Warehouse capacity** at 30 June 2024 was \$9.2 billion. Over the first six months of 2024, Pepper Money completed two Public Term Securitisations – one Residential Mortgage-Backed Securities (RMBS) transaction and one Asset-Backed Securities (ABS) transaction, raising in excess of \$1.4 billion. In addition to Public Term Securitisations, a further \$1.1 billion was raised from Whole Loan Sales. The Company executed two Prime Whole Loan Sales totalling \$389.3 million, a Non-Conforming Mortgage Whole Loan Sale of \$226.1 million, and an Asset Finance Whole Loan Sale of \$500.0 million.

Capital management

On 28 March 2024, Pepper Money completed the acquisition of the residual 35% shareholding in Stratton Finance Pty Ltd ("Stratton"), with the \$41.9 million paid funded through operating cash flows funded through operating cash flows.

Following the maturity, and repayment, of Pepper Money's Corporate Debt Facility (CDF), a new syndicated 3-year revolving credit facility was established on 23 May 2024. Given strong demand, the new facility was upsized from \$200.0 million to \$270.0 million, on terms in line with the previous CDF.

As at 30 June 2024, Pepper Money had \$99.8 million in unrestricted cash. (30 June 2023: \$78.8 million, 31 December 2023: \$121.1 million).

Interim dividend

The Board has declared a fully franked **Interim dividend of 5.0 cents per share¹⁰**, representing a **pay-out ratio of 47.5%** on the Net Profit After Tax for the six months to 30 June 2024, up from 30.0% payout, and increase of 1.5 cents per share, versus the 2023 Interim dividend. The 2024 Interim dividend represents an annual yield of 6.7% (2023 Interim 5.1%).

Outlook

Commenting on the outlook for the remainder of 2024, Mario Rehayem, said, “*Our performance over the first half of 2024 has been strong, with Mortgage volume increasing and total NIM expanding. This was achieved despite uncertain market conditions and the weakness in consumer and business confidence:*”

“I do feel that the headwinds are easing, and as a business we feel confident as we move through 2024. We are prepared to capture more opportunities as they become available. Over the 24 years we have been in business we have successfully navigated all cycles. We have managed our customers through the rates rise cycle, we have sought new opportunities. Our constant investment has delivered scaled technology and processes. We are diversified, both in terms of the scale of our two-core lending businesses of Mortgages and Asset Finance, as well as the growth from our Loan and Other Servicing business which delivers a capital light annuity style income stream from our Whole Loan Sale strategy. We are also disciplined: whether it be how we manage credit, expenses or capital. We remain, as always, well provisioned. We have sufficient funding headroom available. With \$19.3 billion in Total Assets under Management today we are strong and have the ability to capitalise on growth opportunities as they emerge”.

ENDS

This announcement was authorised for release by the Board.

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 who are underserved by traditional lenders. Pepper Money today has a broad product offering of residential home loans, asset finance, commercial real estate, self-managed super fund loans and novated leases in Australia and residential home loans in New Zealand. For more information visit www.peppermoney.com.au

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¹ Statutory Net Profit After Tax (NPAT).

² Pro-forma pre-tax adjustments: 1H 2024 \$Nil. 2H 2023 \$(3.3) million relating to the acquisition of the HSBC New Zealand mortgage portfolio completed 1 December 2023. 1H 2023. \$Nil.

³ Profit Pre-Provision is profit before tax and loan losses.

⁴ Total and Mortgage NIM revised in prior periods to reflect the change in the accounting treatment for trail commissions. On a statutory reporting comparative basis Total NIM is 1.92% vs 1H 2023 2.06%. Mortgages NIM is 1.60% vs 1H 2023 1.83%.

⁵ Loan Losses excludes Post Model Overlay.

⁶ Pro-forma Total Operating Income.

⁷ Pro-forma Expenses. See note 2 above for Pro-forma pre-tax adjustments.

⁸ Committed and uncommitted facility limits. Includes Pepper Money Notes.

⁹ Total Loan Loss Provisions, including Post Model Overlay, as a percent of Lending AUM (closing).

¹⁰ Interim dividend payable on Pro-forma NPAT for the period 1 January 2024 – 30 June 2024.