

ASX Announcement
 29 February 2024

CY2023 Results Announcement

Result Highlights

- **Statutory NPAT¹** of \$108.7 million down (23)%² on CY2022.
- **Pro-forma NPAT³** of \$111.1 million (22)% below CY2022.
- **Total Originations** of \$7.3 billion, down (24)% on prior corresponding period (PCP).
- **Total AUM** increased 3% to \$19.7 billion:
 - **Mortgage Originations** down (43)% on PCP to \$3.9 billion. 2H CY2023 Originations grew 28% on 1H 2023. **Mortgage AUM** closed CY2023 at \$12.6 billion.
 - **Asset Finance Originations** up 20% to \$3.4 billion with AUM increasing 21% to a record \$5.7 billion.
 - **Servicing AUM** closed December CY2023 \$1.4 billion, up from \$1.0 billion at December CY2022.
- **Total Operating income⁴** declined (4)% on PCP to \$390.1 million. 2H CY2023 Total Operating Income grew 2% on 1H CY2023.
- **Balanced portfolio mix: Mortgages** contributing 55%; **Asset Finance** contributing 43%⁵ and **Loan & Other Servicing** contributing 2% of Total Operating Income.
- **Total NIM** of 2.00%, with Mortgages 1.77% and Asset Finance 2.50%, was down (21)bps and (41)bps respectively on PCP. Higher funding margins in prior periods in excess of pricing initiatives, and customer attrition continue to drive NIM compression.
- **Loan Losses as a percentage of Lending AUM⁶** increased from 0.22% in CY2022 to 0.28% in CY2023, driven by growth in Asset Finance AUM.
- **Normalised Pro-forma Operating Expenses⁷** increased (1)% in CY2023 vs PCP.
- **Seven Public Term Securitisations** completed in CY2023, raising over \$5.4 billion.
- **\$9.3 billion in Warehouse capacity⁸** at 31 December 2023, down (18)% on 31 December 2022, given lower Mortgage volumes.
- **Fully franked final dividend** of 5.0 cents per share declared – total CY2023 dividends of 8.6⁹ cents per share fully franked, equating to an annualised yield of 6.4%.
- Pepper Money remains well funded to support future growth with unrestricted cash of \$121.1 million at year end.

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	CY2023	CY2022	Movement
Statutory NPAT	\$108.7 m	\$140.5 m	(23)%
Pro-forma NPAT	\$111.1 m	\$142.0 m	(22)%
Originations	\$7.3 bn	\$9.6 bn	(24)%
Lending AUM	\$18.3 bn	\$18.2 bn	+0%
Total AUM	\$19.7 bn	\$19.2 bn	+3%
Net Interest Margin (NIM)	2.00%	2.20%	(20)bps
Loan Losses % Lending AUM	0.28%	0.22%	(6)bps
Total Operating Income	\$390.1 m	\$408.2 m	(4)%
Pro-forma Total Operating Expenses	\$191.4 m	\$171.3 m	(12)%
Normalised Pro-forma Total Operating Expenses	\$157.7 m	\$155.9 m	(1)%
Final Dividend (per share)	5.0 cents	5.1 cents	(0.1) cents
Final Dividend Payout Ratio	37.5%	32.5%	+5.0pp
Annualised Dividend Payout Ratio	34.0%	32.5%	+1.50pp

Pepper Money Limited (ASX: PPM) today announced its full year results for the 12-month period ending 31 December 2023 (CY2023). The Company reported Statutory Net Profit After Tax (NPAT) of \$108.7 million for the year, down (23)% on CY2022 and Pro-forma NPAT of \$111.1 million, down (22)% on PCP.

Commenting on CY2023 performance, **Pepper Money's CEO, Mario Rehayem**, said: "Pepper Money's CY2023 financial results demonstrate our disciplined approach to knowing when to focus on growth and when to manage for value. Our diversified business model with Mortgages contributing 55% of Total Operating Income and Asset Finance contributing 43% (up from 37% in CY2022) has enabled us to address the challenging market conditions faced over CY2023. The conditions reflect intense competition as well as volatility in swap rates, impacting funding margins".

"I am pleased to report that we achieved a number of milestones throughout the year, including welcoming an additional 89,134 customers to Pepper Money and improving our customer Net Promoter Scores (NPS) across all asset classes – with Home Loan NPS +9 points better than industry average and Asset Finance +27 points better than industry average. We raised \$5.4 billion from Public Term Securitisations having securitised \$38.6 billion across 61 transactions since 2003, and calling each of these at the first available date. We complemented our Public Term Securitisation programs with Private Term Securitisations and Whole Loan Sales, which exceeded \$1.6 billion in 2023. Given the scale that we have now achieved in our Asset Finance business – with AUM exceeding \$6.0 billion in September 2023 – we have extended our Whole Loan Sale program to this asset class as part of our ongoing funding and capital management strategy".

"We also complemented organic growth with external opportunities – successfully completing the acquisition of The Hongkong and Shanghai Banking Corporation (HSBC) New Zealand residential mortgage portfolio in December 2023. This is a high performing portfolio, with virtually no loss history which we have already integrated into Pepper Money without the need for any additional full time employees, reflecting our ability to continue to deliver scaled growth.

“With Pro-forma NPAT of \$111.1 million the Board has declared a fully franked final dividend of 5.0 cents per share, bringing total dividends paid / payable in respect of CY2023 to 8.6 cents per share, representing an annualised yield of 6.4%, marginally up from 6.3% in CY2022.”

Originations

The Company delivered \$7.3 billion in **Originations** over CY2023:

- While **Mortgage** Originations declined (43)% on PCP to \$3.9 billion, 2H CY2023 Originations at \$2.2 billion grew 28% on 1H CY2023. Mortgage Origination mix for the full year was split 63% Non-conforming, 37% Prime (versus 48% and 52% respectively in CY2022).
- **Asset Finance** delivered record Originations of \$3.4 billion for CY2023, up 20% on PCP. Novated Leasing Originations grew nearly three-fold on CY2022. Tier A customers contributed 63% of the Originations mix (59% PCP), Tier B 28% (33% PCP) and Tier C 9% (flat year on year).

Assets Under Management (AUM)

Total AUM closed December 2023 at \$19.7 billion, increasing 3% over December 2022. This is the highest AUM achieved in Pepper Money’s history.

Total Lending AUM for CY2023 increased to \$18.3 billion, up from \$18.2 billion in December 2022:

- Mortgage AUM closed CY2023 at \$12.6 billion, down from \$13.5 billion in CY2022 given macro-economic conditions and intense competitive environment.
- Asset Finance AUM closed CY2023 at \$5.7 billion, an increase of 21% on CY2022 close.

Net Interest Margin (NIM)

Net Interest Margin of 2.00% for CY2023 was (20)bps below PCP.

- **Mortgages** continued to experience NIM compression as a result of strong competition impacting customer rates, volatility in swap rates and the flow through of higher funding costs. Mortgage NIM at 1.77% was (21)bps lower than PCP. Pepper Money implemented back and front book price increases following the Reserve Bank of Australia’s increases to the official cash rate, however the lag between BBSW increasing in advance of RBA rises combined with lags in customer rate changes, heightened customer attrition and funding spreads returning to pre-COVID levels, all contributed to further NIM compression.
- **Asset Finance** NIM at 2.50% reduced by (41)bps on PCP driven in part by business mix (ongoing growth in Novated Leasing), swap rate volatility specifically in the first half of the year, and higher funding margins. These were partially recovered through pricing initiatives.

Credit performance

Pepper Money’s long history and depth of experience in credit and underwriting continues to be seen in the ongoing strength of Pepper Money’s credit performance. Loan Losses as a percentage of Lending AUM at 0.28%, increased by (6)bps on PCP driven by the AUM growth in Asset Finance.

Before the writeback of \$11.1 million (CY2022: \$11.9 million) in Post Model Overlays, total Loan Loss Expense at \$51.0 million was up from \$45.2 million in the prior comparable period in line with the growth in the Asset Finance portfolio.

Given the possibility of increased consumer stress throughout CY2024, and the flow through of interest rate rises and inflation, Pepper Money continues to hold Post Model and Management

Overlays of \$8.7 million. The Company is well positioned and at 31 December 2023 holds a total provision for credit losses of \$119.6 million.

Discretionary cost management

The Company's scaled technology platform, supporting automation, and disciplined approach to cost management, saw **Normalised Pro-forma Operating Expenses**¹⁰ increase by only (1)% - from \$155.9 million in CY2022 to \$157.7 million in CY2023. Normalising removes the impact of Stratton, acquired 1 July 2022, from the operating cost base.

2H CY2023 Reported Pro-forma Operating Expenses reduced by \$(6.1) million on 1H CY2023, with all Operating Expense lines realising benefits half on half. In a high inflation environment, disciplined cost management, scaled platforms and processes saw the business support ongoing volume growth in Asset Finance and the integration of the New Zealand mortgage portfolio acquired from HSBC with no FTE increase. Core Lending FTE closed the year 5% below PCP.

Reported Pro-forma Operating Expenses (including Stratton) increased from \$171.3 million in CY2022 to \$191.4 million. Total Pro-forma Expenses for CY2023 at \$238.1 million were up (16)% year on year, with Corporate Interest expense increasing \$(11.4) million as BBSY continued to be higher than long term averages.

Funding and capital

Total Warehouse capacity at 31 December 2023 was \$9.3 billion, (18)% lower than 31 December 2022 reflecting reduced Mortgage volumes. The Company continues to take a prudent approach to funding, maintaining a minimum of ~4 - 6 months of warehouse funding headroom. Over CY2023 Pepper Money completed seven Public Term Securitisations - five Residential Mortgage-Backed Securities (RMBS) transactions and two Asset-Backed Securities (ABS) transactions, raising \$5.4 billion, making Pepper Money one of the most active issuers in the public securitisation market. In addition to Public Term Securitisations, a further \$1.6 billion was raised from Private Term Securitisations and Whole Loan Sales.

Capital management and change to Dividend Policy in CY2024

Pepper Money remains disciplined in respect to capital management. The growth in the Asset Finance business over CY2023, and the ability to acquire the HSBC New Zealand residential mortgage portfolio, demonstrated the capacity to deploy capital to fund growth opportunities. In the near term, lower Mortgage growth, as well as a moderation in the growth of Asset Finance, which will see the capital needed to fund the business moderate. In light of these expected trends, the Board has considered opportunities to return capital to shareholders and today announced via a separate announcement its intention to commence an **on-market share buy-back in April this year**. In addition, the Board has amended the Company's **Dividend Policy**¹¹ increasing the annual payout ratio to 30% - 60% of Pro-forma NPAT from 30% - 40%, effective from the 2024 financial year¹².

CY2023 final dividend

The Board has declared a fully franked **final dividend of 5.0 cents per share**¹³ for CY2023. This brings **total dividend** paid or payable in relation to CY2023 to \$37.8 million and equates to total dividends declared in respect to CY2023 of **8.6 cents per share, representing a full year pay-out ratio of 34.0%** on CY2023 Pro-forma NPAT.

Outlook

Commenting on the outlook for CY2024, Mr Rehayem said, “Pepper Money’s strategy and medium-term growth outlook, continues to be structured around building sustainable risk-adjusted returns. We know how to balance growth with managing for value. We recognise that economic conditions have been tough, for customers and businesses alike, and while there are signs that inflation and rates may have peaked, I am confident in our ability to respond and adapt to what remains an uncertain environment. This includes continuing to find ways to help our customers navigate difficult economic conditions. Pepper Money is well positioned as we head into CY2024. We have already completed our first RMBS transaction – PRS39 – for \$750.0 million at margins substantially inside CY2023”.

“The investment Pepper Money has made building scalable technology platforms, streamlined processes, and driving automation are already delivering benefits, seen through our ability to integrate NZ\$1.1 billion in AUM acquired from HSBC with no additional resources required. As market conditions improve, we are well-positioned to capitalise on opportunities, striking the right balance between growth and managing for value”.

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 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 www.peppermoney.com.au

Investor relations

Gordon Livingstone

Reunion Capital Partners

M: +61 (0) 417 695 138

glivingstone@reunioncapital.com.au

Media realtions

Helen Karlis

Domestique Consulting

M: +61 (0) 419 593 348

helen@domestiqueconsulting.com.au

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- 1 Statutory Net Profit After Tax (NPAT).
 - 2 Unless otherwise stated, all % movements are compared to year ending 31 December 2022 (CY2022).
 - 3 Pro-forma pre-tax adjustments for CY2023 of \$(3.3) million are one-off in nature as they related to the acquisition of the HSBC New Zealand mortgage portfolio completed 1 December 2023. (CY2022 of \$(1.5) million in one-off pre-tax adjustments relating to the acquisition of Stratton Finance Pty Ltd completed 1 July 2022).
 - 4 Pro-forma Total Operating Income.
 - 5 PCP Includes six months of Stratton Finance Pty Ltd following the acquisition of 65% on 1 July 2022.
 - 6 Loan Losses excludes Post Model Overlay.
 - 7 Normalised Pro-forma Operating expenses – adjusts for Stratton Finance Pty Ltd acquired 1 July 2022 and after Pro-forma adjustments as per Note 3 above.
 - 8 Committed and uncommitted facility limits. Includes Pepper Money Notes.
 - 9 CY2023 Interim dividend paid: 3.5 cents per share. CY2023 final dividend declared: 5.0 cents per share. Subject to rounding.
 - 10 Normalised Pro-forma Operating expenses removes the impact of Stratton Finance Pty Ltd acquired 1 July 2022, and excludes Depreciation and Amortisation and Corporate Interest expense.
 - 11 As per Pepper Money Limited Prospectus – Initial Public Offering of Ordinary Shares. Section 4.10 page 181.
 - 12 Pepper Money Limited financial year is for the period 1 January – 31 December.
 - 13 Final dividend payable on Pro-forma NPAT for the period 1 July 2023 – 31 December 2023.