FY2019 Financial Result

ASX release – 19 August 2019

netwealth

Netwealth underlying NPAT up 23.9% to $36 million.

Netwealth Group Limited (Netwealth, ASX; NWL), Australia's largest specialist platform provider (SPP), is pleased to announce its full year results for 2019.

Financial results highlights (comparisons FY2018)

- NPAT[1] of $36.0 million increased by $6.9 million (+23.9%).
- EBITDA[1] of $52.0 million increased by $9.7 million (+22.9%).
- EBITDA[1] margin improved to 52.6% (FY2018 50.8%)
- Total revenue increased by $15.5 million (+18.6%) to $98.8 million. Revenue growth resulted from continued strong FUA growth and increased transactional revenue and other ancillaries.
- Netwealth continued its strong cost management, scalability and demonstrated further operating leverage in 2019. Total operating expenses increased by 14.2% to $46.8 million in FY2019.
- Netwealth increased its investment in platform technology with an increase in its IT head count to 74 during FY2019. All internal IT platform development costs were expensed.
- Netwealth delivered a high cash conversion ratio of 95.3[1]%.
- EPS[1] of 14.8 cents for FY2019 increased by 2.9 cents (+24.4%).
- On the 19 Aug 2019 the Board declared a fully franked final dividend of 6.6 cents per share, totalling $15.7 million and 12.1 cents per share for the full year. The final dividend is payable on 26 Sep 2019. The ex-dividend date is 26 Aug 2019.

1. Underlying EBITDA, EBITDA margin, NPAT, NPAT margin, Operating net cashflow and EPS have been prepared to exclude non-recurring expenses for FY2019 and consistent with pro forma calculations for FY2018. A reconciliation is provided in the Appendix. Underlying EPS has been calculated based on the ordinary and performance shares currently on issue.

Financials[1]	FY2018 Actual	FY2019 Actual	Change	% Change
Platform revenue	81.5	96.4	14.9	18.3%
Other income	1.8	2.4	0.6	33.4%
Total income	**83.3**	**98.8**	**15.5**	**18.6%**
Employee benefits expenses	(28.7)	(32.3)	3.6	12.5%
Other costs & expenses	(12.2)	(14.5)	2.2	18.3%
Total operating expenses	**(41.0)**	**(46.8)**	**5.8**	**14.2%**
Underlying EBITDA	**42.3**	**52.0**	**9.7**	**22.9%**
Underlying EBITDA margin %	50.8%	52.6%	1.8%	
Underlying NPAT	**29.0**	**36.0**	**6.9**	**23.9%**
Underlying NPAT margin %	34.9%	36.4%	1.5%	
Underlying operating net-cash flow pre tax	**39.4**	**49.5**	**10.1**	**25.7%**
Cash conversion ratio to EBITDA	93.1%	95.3%	2.1%	
EPS based on underlying NPAT (cents)	11.9	14.8	2.9	24.4%
Platform Statistics				
Funds Under Administration				
FUA (eop)	17,960	23,337	5,377	29.9%
Fee paying FUA %	61.6%	61.0%	(0.6%)	
FUA net inflows	4,166	4,334	168	4.0%
Funds Under Management				
Managed Account	1,834	2,760	925	50.4%
Managed funds	1,011	1,186	175	17.3%
FUM (eop)	**2,846**	**3,946**	**1,100**	**38.7%**
Managed Account net inflows	871	751	(121)	(13.9%)
Managed funds net inflows	112	148	37	32.8%
FUM net inflows	**983**	**899**	**(84)**	**(8.5%)**
Key Statistics				
Platform revenue / average FUA (bps)	53.4	48.1	(5.3)	(9.9%)
EBITDA / average FUA (bps)	27.7	25.9	(1.8)	(6.6%)
Platform revenue / average number of accounts ($)	1,405	1,460	55	3.9%
Member accounts (eop, number)	62,097	71,424	9,327	15.0%
Financial Intermediaries (eop, number)	2,271	2,579	308	13.6%

$'M unless otherwise stated and prepared on a underlying basis consistent with previous years

eop - end of period

1 Underlying EBITDA, EBITDA margin, NPAT, NPAT margin, Operating net cashflow and EPS have been prepared to exclude non-recurring expenses for FY2019 and consistent with pro forma calculations for FY2018. A reconciliation is provided in the Appendix. Underlying EPS has been calculated based on the ordinary and performance shares currently on issue.

Company Highlights

- Funds Under Administration (FUA) of $23.3 billion increased by $5.4 billion comprised of $4.3 billion FUA net inflows and $1.1 billion market movement.
- For the second consecutive year Netwealth lead the market for FUA net inflows with $4.3 billion for the 12-month period to 31 March 2019. Netwealth's market share increased to 2.5%[2] providing significant further growth opportunity.
- Netwealth was recognised by Investment Trends as the No 1 platform for overall user satisfaction for the eighth consecutive year and ranked No 1 platform for overall functionality for the fourth year in a row[3].
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- Funds Under Management (FUM) as at 30 June 2019 of $3.9 billion, increased by $1.1 billion (38.7%) from 30 June 2018. The increase included $0.9 billion FUM net inflows and $0.2 billion FUM market movement.
- Managed Account FUM as at 30 June 2019 of $2.8 billion, increased by $0.9 billion (50.4%) from 30 June 2018. The increase included $0.8 billion Managed Account FUM net inflows and $0.1 billion of Managed Account FUM market movement.
- Member accounts as at 30 June 2019 of 71,424, increased by 9,327 accounts (up 15.0%) from 30 June 2018.

Commenting on the results Michael Heine, Joint Managing Director said:

> "Netwealth delivered further strong growth across all key financiszaal metrics, while continuing to increase our ongoing investment in the platform.
>
> We maintained our position as the number 1 rated platform, increased our investment in our people, enhanced brand recognition and grew market share.
>
> We are the largest SPP and the 9th largest overall platform, strategically positioned to benefit from further industry tailwinds.
>
> We are focused on expanding our whole of wealth solution to the affluent and high net worth clients."

2. Strategic Insights: Master Trusts, Platforms and Wraps (Mar 2019)
3. Investment Trends; April 2019 Planner Technology Report and December 2018 Platform Competitive Analysis and Benchmarking Report

Outlook

- Recent years have seen considerable change and upheaval in the financial services industry. The Royal Commission came at a time when major financial institutions were already reviewing their commitment to the wealth management industry and provided additional impetus for change. This has already benefited Netwealth and we see further benefits to come.
- We are confident that our forecast strategic increase in investment in our IT infrastructure, people and software for FY2020 will ensure that we maintain our technology leadership and scalability, in addition to our ability to meet and support evolving advice models and consumer preferences.
- We remain focused on further diversifying our revenue streams and building out the platform to provide optional functionality on a user pays basis to further entrench our position as the leading technology provider to the affluent and HNW investor and financial intermediary.
- Netwealth will continue to review its pricing models for existing and new business to ensure we remain competitive while providing our clients value, quality service, and market leading technology and functionality.
- We expect FUA net inflows in FY2020 to exceed $7 billion and FUA to exceed $30 billion[4] at 30 June 2020 driven by:
  - continued support from our existing advisers (~75% of net inflows each financial year typically come from advisers who were our clients at 1 July);
  - our strong pipeline of new business won (yet to transition) and opportunities;
  - the number of advisers changing platforms continuing to increase. Investment Trends[5] reported 29% of advisers intend to look for new platforms in the next 12 months and Netwealth was cited as No 1 for intended use;
  - an increase in the contestable market for Netwealth as banks and institutions open product lists and exit advice, leaving advisers to find new licensees or establish their own licences;
  - winning clients from third party and in-house administration systems, which significantly increases our growth opportunities beyond existing platform users; and
  - Netwealth's success in winning business in the affluent and HNW sectors due to our superior functionality which is designed to meet the needs of sophisticated investors.
- We expect our EBITDA margin percentage to be marginally below FY2019 due to:
  - the overall reduction in bps from pricing strategies and new business weighted towards the affluent and HNW sectors; and
  - the strategic increase in the investment in IT infrastructure, people and software combined with the full year impact of new hires in FY2019.

Commenting on the outlook Michael Heine, Joint Managing Director said:

> "Netwealth is very confident of our growth opportunities and expect Net inflows in FY2020 to exceed $7 billion and Funds Under Administration to exceed $30 billion[4] at 30 June 2020"

4. Assumes FUA is not adversely impacted by financial market conditions.
5. Investment Trends; April 2019 Planner Technology Report and December 2018 Platform Competitive Analysis and Benchmarking Report.

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About Netwealth

Netwealth is a financial services company listed on the Australian Stock Exchange (ASX: NWL). Netwealth was created with an entrepreneurial spirit to challenge the conventions of Australia's financial services.

We are a technology company, a superannuation fund and an administration business. Above all we exist to inspire people to see wealth differently and discover a brighter future.

Founded in 1999, Netwealth is one of the fastest growing wealth management businesses in Australia.

We are rated No.1 by our clients for providing exceptional service and independent researchers continue to rate our technology as best in class*.

Our financial products are:

- Superannuation including accumulation and retirement income products;
- Investor directed portfolio services for self-managed super and non-super investments
- Managed Accounts and
- Managed Funds

Netwealth's digital platform supports how our financial products are delivered to market. For instance, via the platform, financial intermediaries and clients can invest and manage a wide array of domestic and international products.

The platform is built, developed and maintained by Netwealth's technology team. It is continuously enhanced using feedback from financial intermediaries, clients and other users and receives wide industry recognition as having market-leading functionality.

Supporting our financial products and technology platform is a significant investment in our people and resources to administer support, risk and governance and our custodial services.

*Investment Trends; December 2018 Platform Competitive Analysis and Benchmarking Report & Investment Trends, April 2019 Planner Technology Report.

Appendix A

Reconciliation from statutory results to underlying results		FY2019 Actual	FY2018 Actual	Change	% Change
EBITDA on continuing operations		**50.8**	**29.9**	**21.0**	**70.2%**
Add back: IPO transaction costs		-	12.4	(12.4)	(100.0%)
Add back: Client rectification costs and legal expenses	1	1.1	-	1.1	100.0%
Underlying EBITDA		**52.0**	**42.3**	**9.7**	**22.9%**
Underlying EBITDA margin		**52.6%**	**50.8%**	**1.8%**	**-**
Statutory NPAT		**34.3**	**20.8**	**13.5**	**64.7%**
(Profit)/loss for the year from discontinued operations	2	0.9	(1.2)	2.1	(175.4%)
IPO transaction costs		-	12.4	(12.4)	(100.0%)
Client rectification costs and legal expenses		1.1	-	1.1	100.0%
Tax impact from IPO transaction costs & listing cost		-	(3.7)	3.7	100.0%
Tax impact from Group Tax Consolidation		-	0.7	(0.7)	(100.0%)
Tax impact from legal and expense compensation		(0.3)	-	(0.3)	(100.0%)
Underlying NPAT		**36.0**	**29.0**	**6.9**	**23.9%**
Underlying NPAT margin		**36.4%**	**34.9%**	**1.5%**	

$'M unless otherwise stated

1. Client rectification costs and legal expenses of $1.1 million after a number of comprehensive reviews going back to the date of the granting of our Superannuation (RSE) licence were conducted.
2. Discontinued operations included $0.9M impairment of the deferred payment from the sale of Bridgeport Financial Services.