

ASX Announcement  
4 April 2022

## Leading non-bank lender **Pepper Money** to acquire 65% of Stratton Finance - one of Australia's largest online asset finance brokers

**Pepper Money Limited** (ASX:PPM) (**Pepper Money**) today announces that it has executed binding agreements to acquire a 65% interest in Stratton Finance Pty Limited (**Stratton**) for **\$78.0 million**. The acquisition is subject to Foreign Investment Review Board (**FIRB**) approval and other customary conditions precedent and is anticipated to complete in Q3 CY2022.

The transaction values Stratton at \$120.0 million on a debt free / cash free basis, with the 65% interest acquired by Pepper Money for \$78.0 million in cash (subject to customary adjustments), in part funded from a draw down on Pepper Money's Corporate Debt Facility and in part from existing Pepper Money cash.

The parties have also entered into a Put and Call Option in relation to the remaining 35% stake in Stratton, exercisable from Q1 CY2024 through Q1 CY2026, with a base price of \$42.0 million indexed based on Stratton's performance in the period between completion of the acquisition of the 65% interest and the acquisition of the remaining 35%. The purchase price for the remaining 35% can be settled in cash or Pepper Money shares (or a combination of the two) at Pepper Money's election.

### Strategic Rationale and benefits

Stratton Finance is one of Australia's leading online direct-to-consumer asset finance broking platforms, with more than 23 years of operating experience, plus strong brand recognition built on trust and transparency. Stratton is supported by a national network of offices (with its head office in Melbourne) and franchises, with a total headcount of 157 employees.<sup>1</sup> Stratton's Net Amount Financed (NAF) for financial year ending 30 June 2021 (FY2021) was \$697.9 million increasing from \$544.2 million in FY2020 representing growth of 28% year on year.

The acquisition will provide a range of strategic benefits to Pepper Money's shareholders beyond the expected pro forma EBITDA<sup>2</sup> contribution, which is forecast to be \$12.5 million (pre minority interest) in the year ending 30 June 2022, from Stratton including:

- Delivering a new and **immediate avenue for sustained incremental origination** volume for Pepper Money's Asset Finance business;
- Broadening Pepper Money's **distribution footprint** by leveraging Pepper Money's established infrastructure and shared service operations (operating efficiency);
- Continuing to deepen **Pepper Money's distribution base** through Stratton's well established **broker base and franchise network**;
- Growth opportunities by providing the Stratton **network access** to all **Pepper Money's products** across mortgages, personal loans and commercial real estate loans;
- Access to Stratton's customer data and insights that will further enhance Pepper Money's **product development pipeline**; and
- Supporting efficiencies and **cost synergies** through vendor and other optimisation.

<sup>1</sup> As at 1 September 2021.

<sup>2</sup> EBITDA: Earnings before interest, tax, depreciation, and amortisation.

Pepper Money's **CEO Mario Rehayem** said: "We started our Asset Finance business at the end of CY2014 and have organically grown the business to \$3.9 billion in AUM<sup>3</sup>, making us the leading non-bank asset finance lender in Australia. It is a strong business that provides us with diversity of income and enhances our margins".

"Our acquisition of the 65% stake in Stratton will enable us to accelerate the growth of the Asset Finance business, by providing opportunities to grow our direct-to-consumer offerings and leverage Stratton's broad customer data to continue to develop innovative customer focused solutions".

"Stratton is a business that is strongly aligned with Pepper Money's core values and its purpose built technology already connects with Pepper Money's Asset Finance Solana platform, positioning us to continue to drive strong business growth".

"We remain committed to the Finance Broker market and are excited about this opportunity to work closely with Stratton on developing products and offerings to support a wider range of customers".

Stratton Finance **Chair, Rob Chaloner** said. "Our relationship with Pepper Money has grown considerably over recent years with Pepper Money today being our largest funder of auto and leisure assets".

"Our businesses share a similar culture with a strong focus on customer satisfaction. The acquisition announced today provides us with closer alignment with Pepper Money and its strong track record of product innovation which we will be able to integrate into our lending and technology capabilities to provide seamless customer experiences with enhanced choice and value".

"We are excited about the vertical integration and growth opportunities that this partnership will bring."

### Trading update

The strong performance demonstrated by Pepper Money over CY2021 has continued into the first quarter of CY2022, with Mortgage originations of \$1.9 billion increasing 54% on PCP<sup>4</sup> and March CY2022 closing AUM of \$13.0 billion up 20% on PCP. Pepper Money's Asset Finance business delivered Q1 originations of \$0.7 billion up 78% on PCP, with March CY2022 closing AUM at \$3.9 billion up 39% on PCP.

Pepper Money's ability to fund its strong growth continues to be demonstrated over the first quarter of this year with the business completing two public securitisations - \$1 billion for Prime Mortgages, which included a \$330 million Green Bond, and \$500 million for Non-Conforming Mortgages. Pepper Money looks forward to providing a more detailed update at its AGM on 28 April 2022.

**ENDS**

This announcement was authorised for release by the Board.

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<sup>3</sup> Asset Under Management (AUM) closing as at 31 March 2022.

<sup>4</sup> PCP: prior comparable period - quarter ending 31 March 2021.

### **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.pepper.com.au](http://www.pepper.com.au)

### **About Stratton Finance**

Stratton Finance is one of Australia's leading online direct-to-consumer (D2C) asset finance broking platforms, with more than 23 years of operating experience, plus strong brand recognition built on trust and transparency. Stratton is supported by a national network of offices and franchises and offers business and personal finance for a range of asset types including cars, boats and caravans, truck and heavy vehicles, business equipment and machinery as well as various insurance products. Stratton Finance has served over 100,000 Australians since 1998. Stratton's purpose built platform delivers broker efficiency and enhanced customer experience. For more information visit [www.strattonfinance.com.au/about-stratton](http://www.strattonfinance.com.au/about-stratton).

### **Forward looking statements**

This announcement includes information that consists of forward-looking statements, for example, the expected EBITDA contribution of Stratton for the year ending 30 June 2022 and other strategic benefits of the acquisition. Forward looking statements are not based on historical facts but are based on current expectations of future results or events. The forward-looking statements are subject to risks, uncertainties, and assumptions which could cause actual results or events to differ materially from the expectations described in such forward looking statements. Those risks and uncertainties include factors and risks specific to the industry in which Pepper Money operates, as well as matters such as general economic conditions. While Pepper Money believes that the expectations reflected in the forward-looking statements in this announcement are reasonable, neither Pepper Money nor its directors can assure you that such expectations will prove to be correct or that the implied results will be achieved. The forward-looking statements do not constitute any representation as to future performance. Any forward-looking statement contained in this announcement is qualified by this cautionary statement.

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