

Investor and analyst presentation



Mortgage Advice Bureau (Holdings) plc

Interim results – six months ended 30 June 2016

September/October 2016

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- For more detailed information, the entire text of the interim results announcement for the six months ended 30 June 2016, can be found on the Investor Relations section of the Company’s website (www.investor.mortgageadvicebureau.com).

Agenda

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Presentation team



Peter Brodnicki
Chief Executive Officer

- Co-founded the business in 2000
- >30 years' mortgage & financial services experience
- British Mortgage Awards: Business Leader of the Year (3 consecutive years)



Lucy Tilley
Finance Director

- Joined MAB Board in May 2015
- Former corporate financier with extensive experience of listed companies (particularly in Financial Services, inc. IPO of MAB)
- Chartered Accountant, qualified at KPMG in 1996

Key highlights

H1 2016 Highlights

- Achieved +30% profits⁽¹⁾ growth
- Increased market share⁽²⁾ to 4.0% (+20%) with mortgage completions up 49% over H1 2015
- Adviser numbers up 13% to 891 at period end (31 Dec 2015: 790)
- Interim dividend of 7.8p representing c. 90% of H1 post tax profits
- Investment in specialist telephone protection firm, Vita

Post period end

- Adviser numbers up 30 to 921 at 23 September 2016
- Sale of 49% stake in Capital Private Finance Limited completed for £2.7m, post tax profit distributed to shareholders by special dividend of 4.25p
- Investment in scalable telephony model, Freedom 365

Outlook

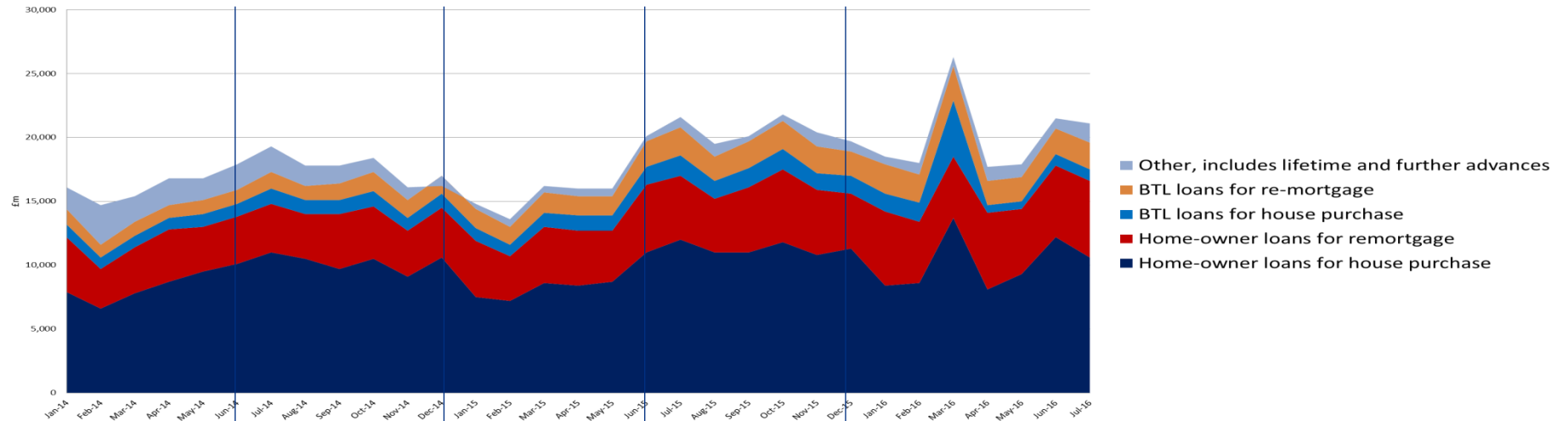
- Intermediary market share just over 70%; technology developments further enhancing proposition
- Flat transactional environment in housing and mortgages expected to continue
- Technology advances and brand awareness are main drivers for MAB

1. Profit before tax and profit after tax

2. Market share is as a % of UK new mortgage lending (CML data)

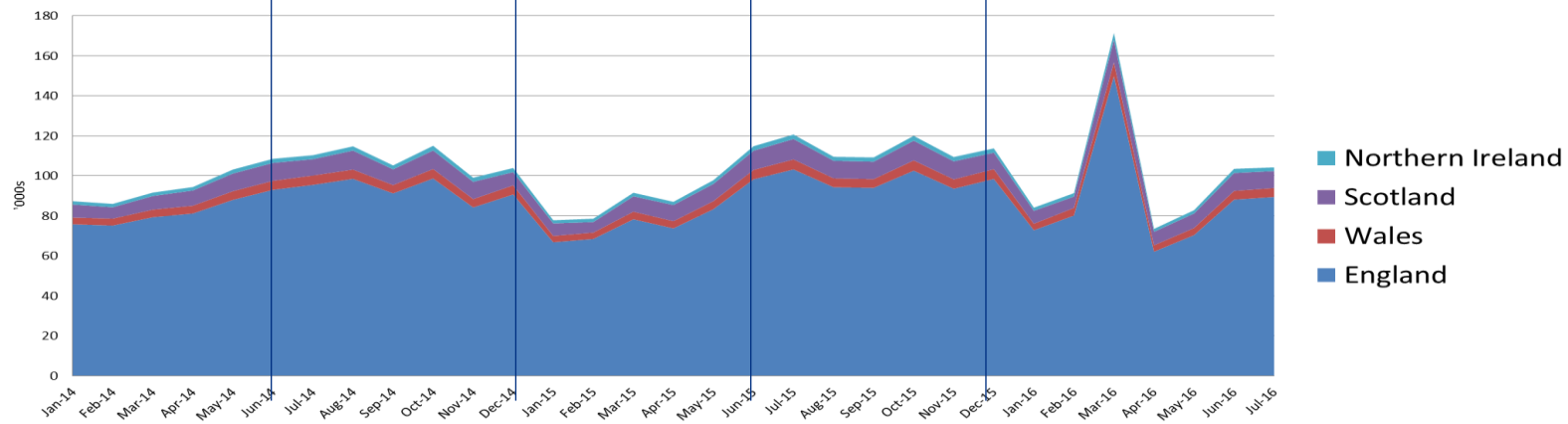
Industry trends

New mortgage lending by purpose of loan, £m



Source: Council of Mortgage Lenders, IMLA¹

Property transactions in the UK by volume



Source: HM Revenue and Customs

¹ IMLA data has been used to further analyse CML data

Industry trends

H1 2016 vs H1 2015

Whole market

- Property transactions by **volume** were **up 11%** due to pre election environment H1 2015 and BTL spike in H1 2016
- UK** gross mortgage lending in **H1 2016** of £118bn¹: **+22%**
- MAB** gross mortgage completions in H1 2016 of £4.8bn²: **+49%**
- MAB market share** increased by **20% from H1 2015** to **4.0%**
- Market increase driven mainly by house price inflation (c.9%³)

Segmental movements in gross mortgage lending by value (distorted by macro factors)

- Home-owner purchase: **+18%**
- Home-owner remortgage: **+25%**
- BTL purchase: **+38%**
- BTL remortgage: **+37%**

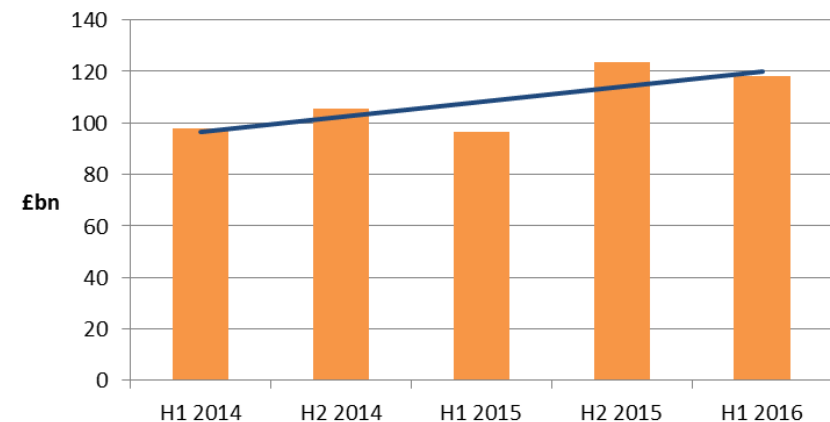
Macro factors affecting industry data comparison

April 2014: Mortgage Market Review

May 2015: General election

June 2016: BTL stamp duty / EU Referendum

New mortgage lending



¹ CML data

² MAB gross mortgage completions in H1 2015 were £3.2bn

³ Land Registry House Price Index

Key financial highlights

	H1 2016	H1 2015	% Change	
Revenue	£43.1m	£31.2m	+38%	<ul style="list-style-type: none"> Average adviser numbers² +27% to 851 (2015: 671)
Gross profit	£9.9m	£7.6m	+31%	<ul style="list-style-type: none"> Gross profit margin of 23.1% (2015: 24.3%) Overheads ratio of 11.7% (2015: 13.0%)
Profit before tax	£5.3m	£3.9m	+34%	<ul style="list-style-type: none"> PBT margin of 12.3% (2015: 12.6%) Effective tax rate of 17.8% (2015: 16.1%)
EPS	8.6p	6.5p	+32%	<ul style="list-style-type: none"> Final dividend circa 90% of post tax profits for H1 2016 Net cash inflow from operating activities £7.4m³ (2015: £3.3m)
Interim dividend	7.8p	4.9p	+59%	<ul style="list-style-type: none"> Unrestricted cash balances of £9.6m (31 Dec 2015: £8.2m) Significant surplus on regulatory capital
Operating profit to cash conversion^{1,3}	159%	102%		

1. Net cash flow from operating activities adjusted for movements in non-trading items including loans to ARs, loans to associates and other non-trade receivables as a % of operating profit

2. Over last six months

3. Due to the timing of the weekly AR commission payment, the Group held additional cash balances at 30 June 2016. Excluding these balances cash conversion would have been 136% for the period ended 30 June 2016 (2015: 102%). Furthermore, excluding increases in restricted cash balances, the cash conversion for the period ended 30 June 2016 would have been 118% (2015: 84%).

All income sources continue to grow strongly

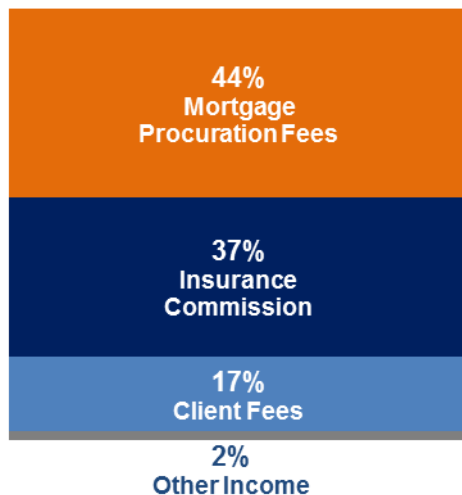
Revenue breakdown

Income source	H1 2016	H1 2015	Increase
	£m	£m	
Mortgage procurement fees	19.0	12.3	54%
Protection and General Insurance Commission	16.0	12.6	28%
Client Fees	7.4	5.8	28%
Other Income	0.6	0.6	17%
Total	43.1	31.2	38%

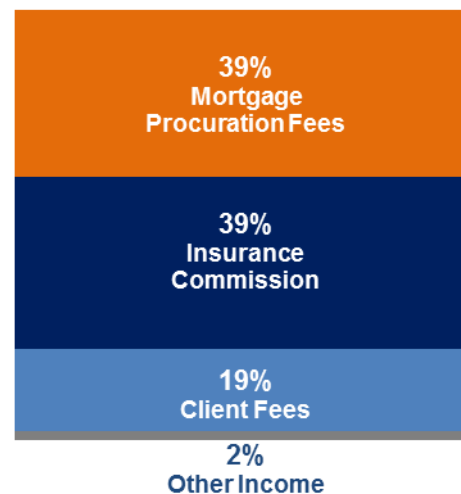
Revenue increase of 38% generated from:

- +27% average Advisers
- +9% revenue per Adviser

H1 2016



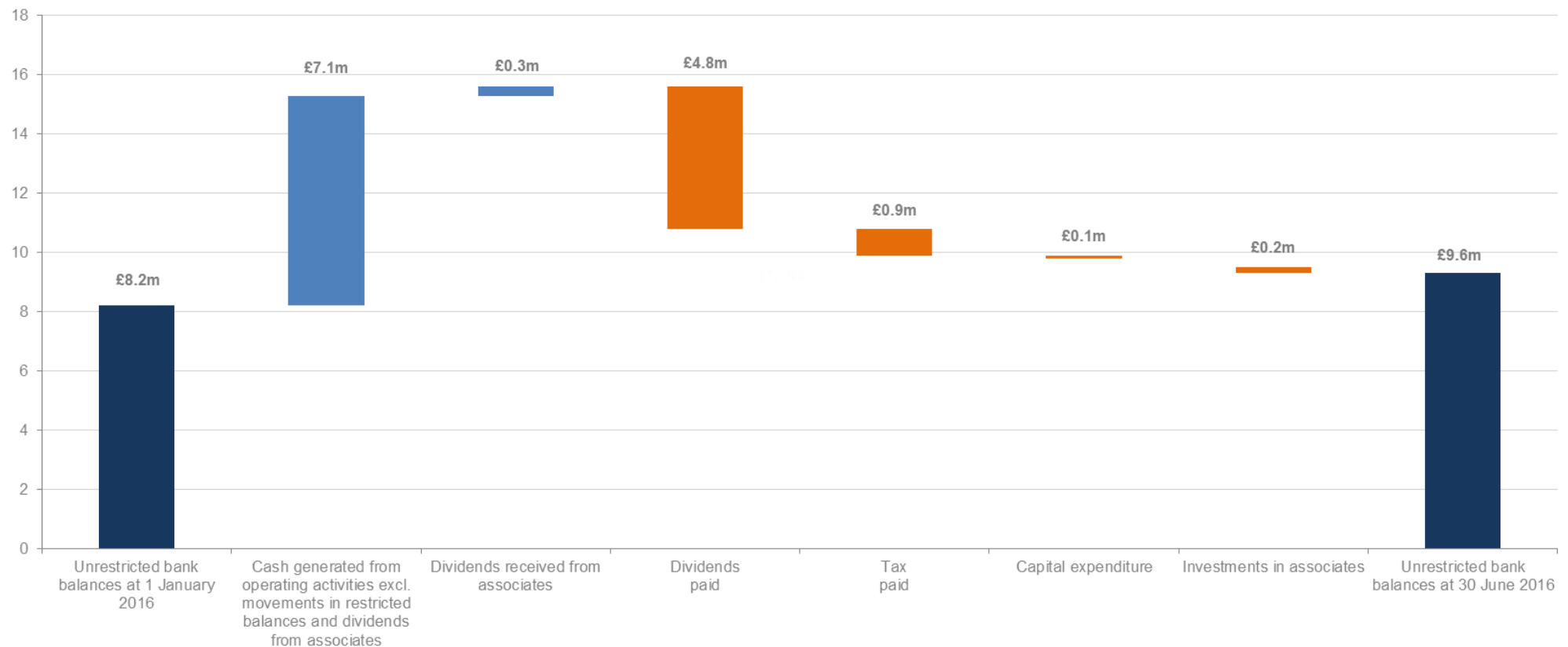
H1 2015



Revenue split:

- Whilst the split of revenue has moved slightly, all income sources continued to grow strongly
- Increase in BTL and remortgages in H1 2016 has affected growth in protection revenue
- Protection dependent on mortgage mix

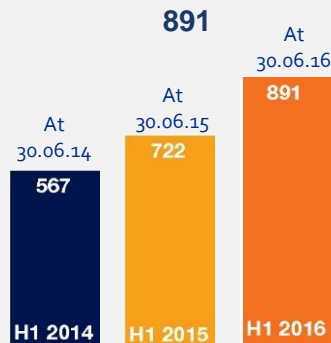
Cash balance waterfall: unrestricted balances (1)



1. Unrestricted cash balances are for operational purposes; they exclude restricted balances (AR retained commission in case of clawback)

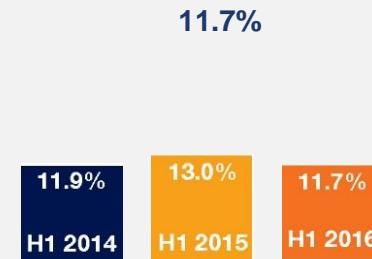
How we performed – KPIs

Adviser Numbers



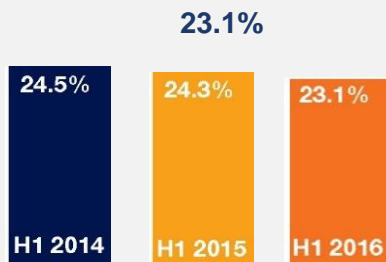
- Average adviser numbers up 27% to 851 (2015: 671)
- Strong growth continues; 921 advisers at 23 September 2016

Overheads % of Revenue



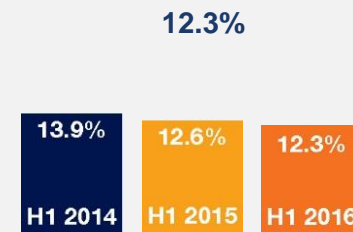
- Some costs (e.g. compliance) closely correlated to growth
- Remainder of costs typically rise at a slower rate than revenue

Gross Profit Margin (%)



- Existing ARs receive slightly better terms as their revenue grows
- New larger ARs typically join on lower than average margins
- Full gross margin impact of large businesses brought on in 2015 seen in 2016

Adjusted Profit Before Tax Margin



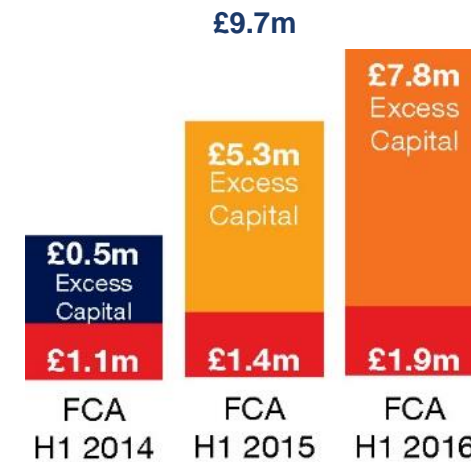
- Too early to determine the level of growth in adviser productivity as we look to 2017 and whether the scalable nature of our cost base will fully offset the effect of any erosion of our gross profit margin that derives from the growth we experience

Strong cash conversion supports dividend policy

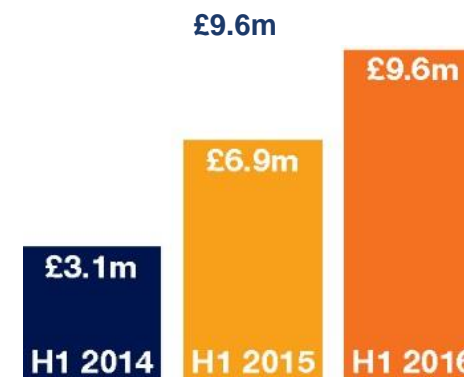
Dividend policy

- MAB is highly cash generative and capital light
- Materially, operating profits = cash
- MAB requires c. 10% of PAT for increased regulatory capital⁽¹⁾ and other CapEx
- Since IPO, dividends have been:
 - 2014 stub period = 2.0p = c. 100% stub period PAT
 - 2015 interim = 4.9p = c. 75% H1 15 PAT
 - 2015 final = 9.5p = c. 90% H2 15 PAT
 - 2016 interim = 7.8p = c. 90% H1 16 PAT
- The 90% H1 16 interim dividend reflects our intentions going forward to:
 - Distribute reserves not required to support growth in the business; and
 - Maintain a strong regulatory capital buffer

Capital Adequacy (£m)










Unrestricted Cash Balances (£m)








1. Regulatory capital requirement: 2.5% of regulated revenue

Strategy

Continue to deliver strong business growth and attractive returns to investors year on year by:

-  Building our market share in all market conditions
-  Ensuring customer led transaction choice: face to face, digital, telephone, or combination of all
-  Early adoption of new and emerging technologies to drive lead generation to improve business and adviser efficiency, retention and repeat sales, whilst also further enhancing the customer and adviser experience
-  Broadening reach in intermediary sector by extending distribution model through selected investments and JV partners
-  Driving productivity through lead management, scalability in telephone advice, protection specialists and robo-advice
-  Fully leveraging USP of leading consumer brand; mortgage shop expansion
-  Researching overseas markets


Outlook

-  Flat housing and mortgage transactional environment expected to continue
-  Intermediary market share stable at c.70%
-  Intermediaries that can deliver technology advances to consumers will dominate
-  MAB position in intermediary sector strengthening with drive on technology and brand
-  >15% growth in adviser numbers YTD; market share increasing

Appendix

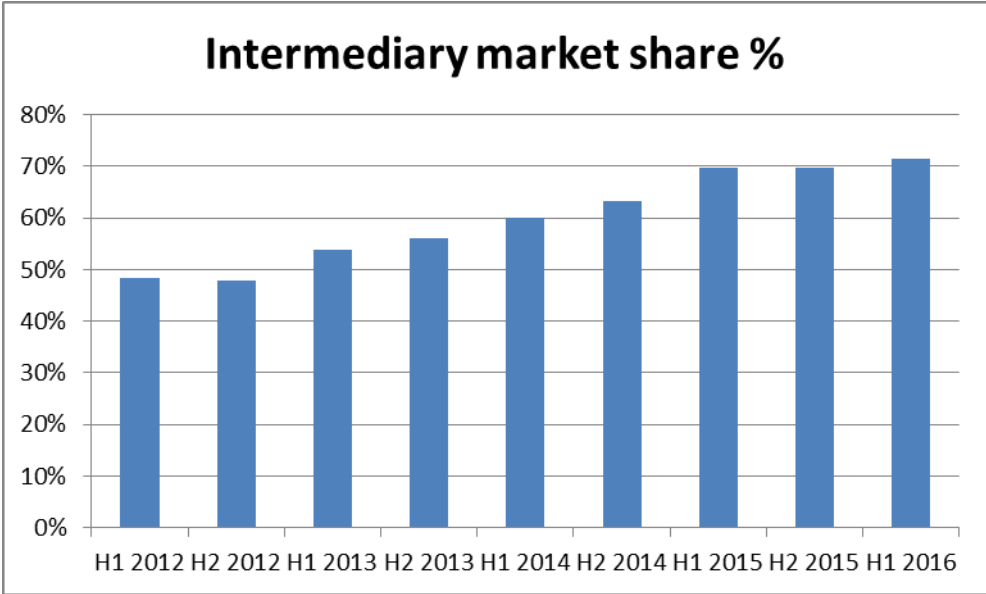


There is only one MAB...

	 Mortgage Advice Bureau	Typical AR network	Typical DA Broker
National consumer brand	✓	✗	✗
Advisers not directly employed	✓	✓	✗
No commercial risk of advice	✓	✓	✗
Limited clawback liability	✓	✓	✗
Clawback fund	✓	✗	✗
Advisers supervised directly	✓	✗	✓
Long term contracts	✓	✗	✗

Market trends favour intermediaries

- Intermediary market share rose from less than 50% in 2012 to c. 71.5% in H1 2016 (excludes buy-to-let)

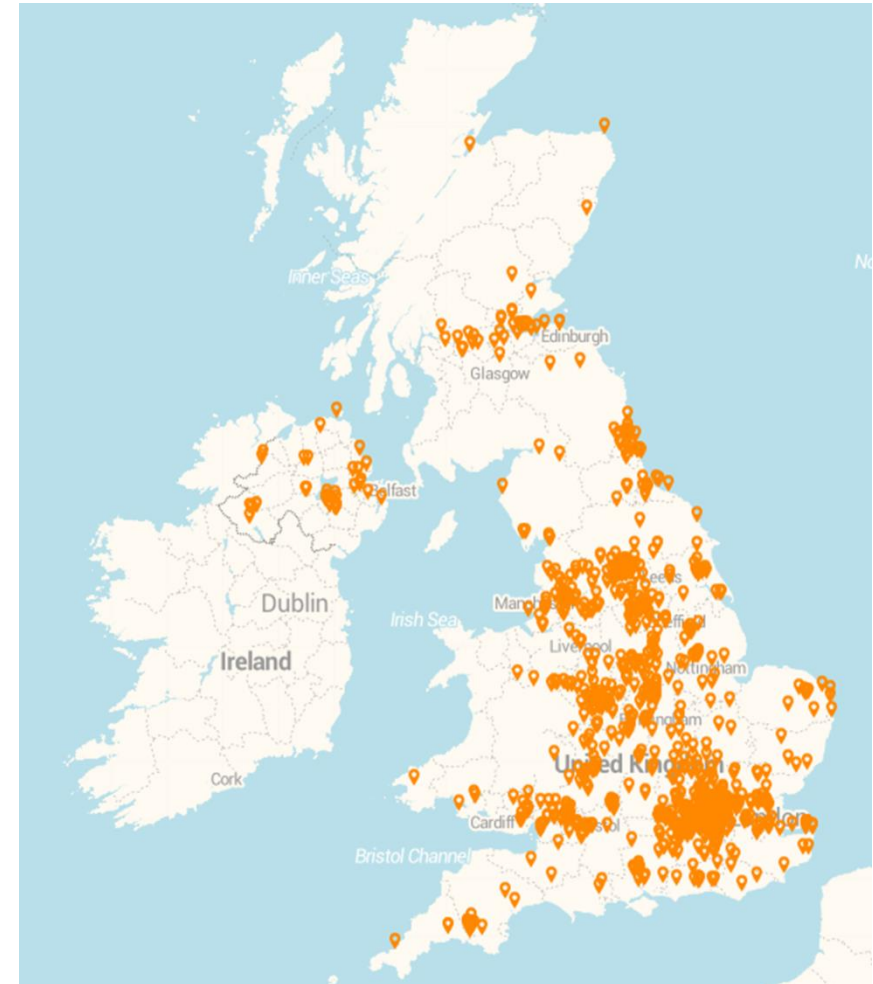


Source: Council of Mortgage Lenders' Regulated Mortgage Survey

Company overview

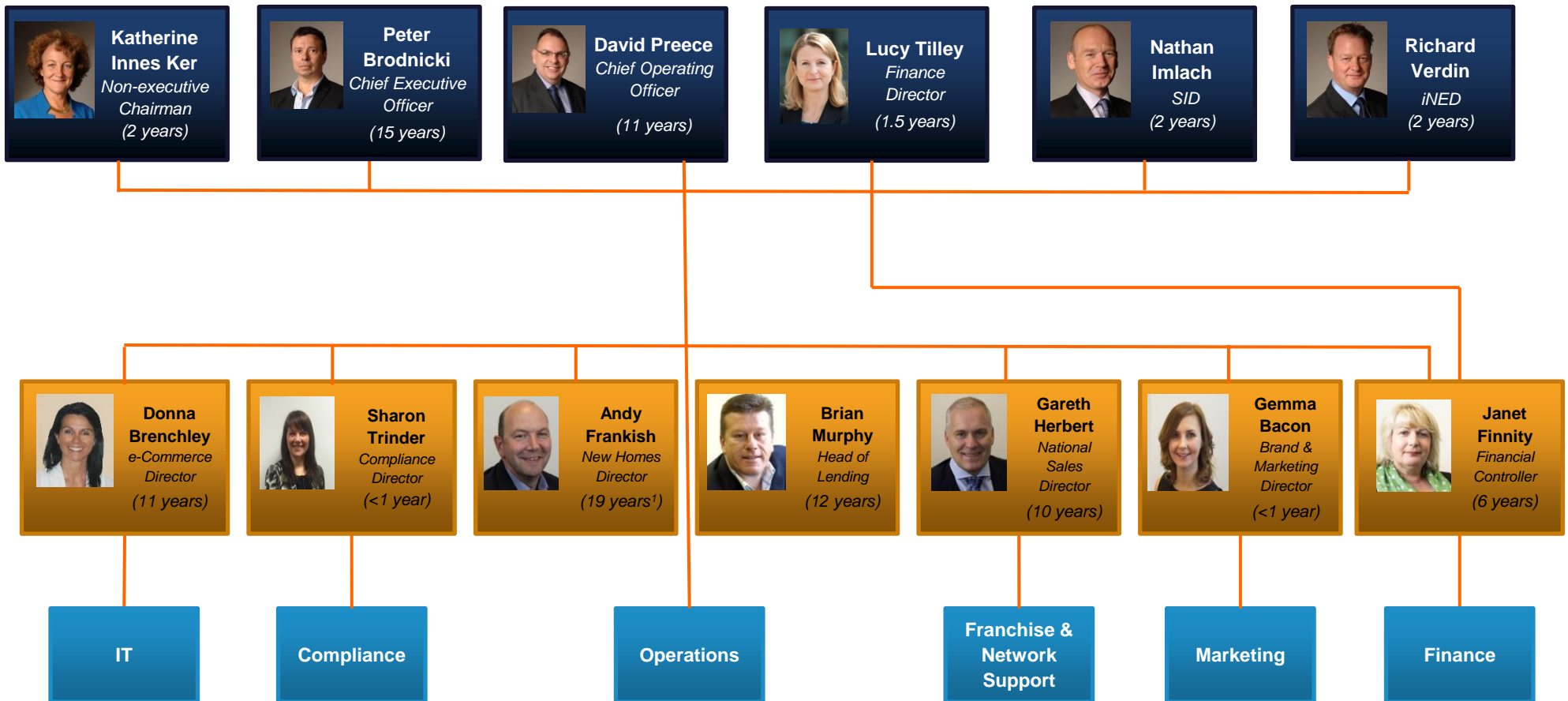
Overview

- Mortgage Advice Bureau (“MAB”) is a leading UK mortgage intermediary network
- Directly authorised by FCA, MAB operates an Appointed Representative (AR) network which specialises in providing independent mortgage advice to customers as well as advice on protection and general insurance
- Over 900 Advisers, almost all employed or engaged by ARs
- All compliance supervision undertaken by MAB employees
- Broad geographical spread across the UK, with <10% of the Group’s revenue derived from the London market
- Developed leading in-house proprietary trading platform called MIDAS
- Won over 72 awards in last 5 years



MAP OF ADVISER LOCATIONS

Corporate structure

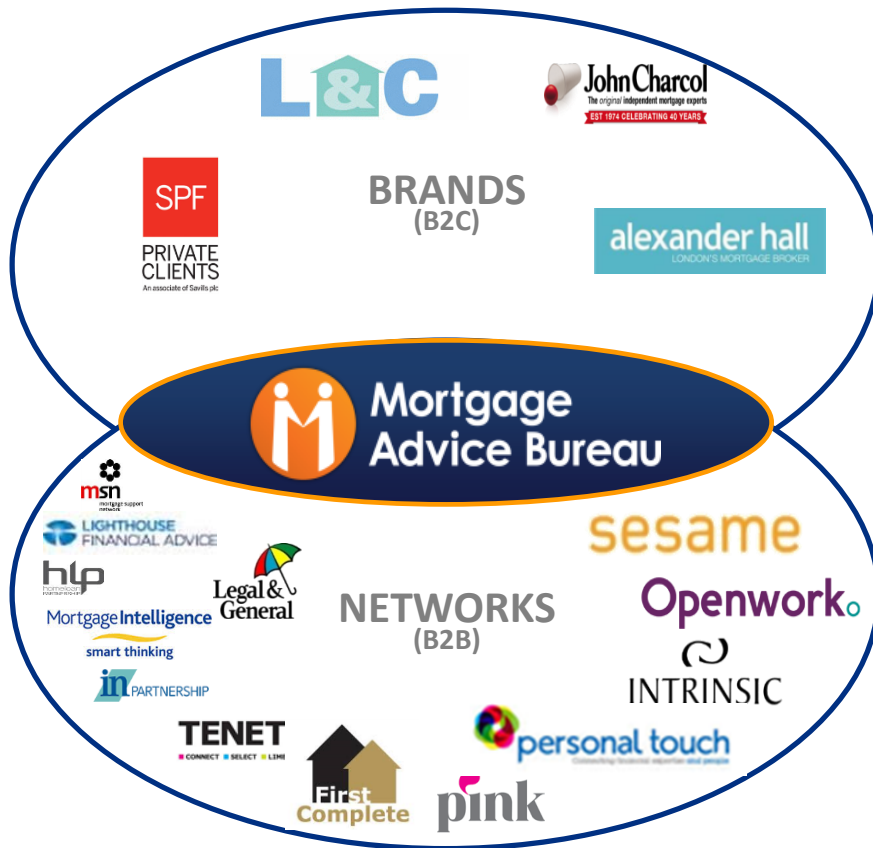


- Board of Directors
- Senior Management Team
- Divisions

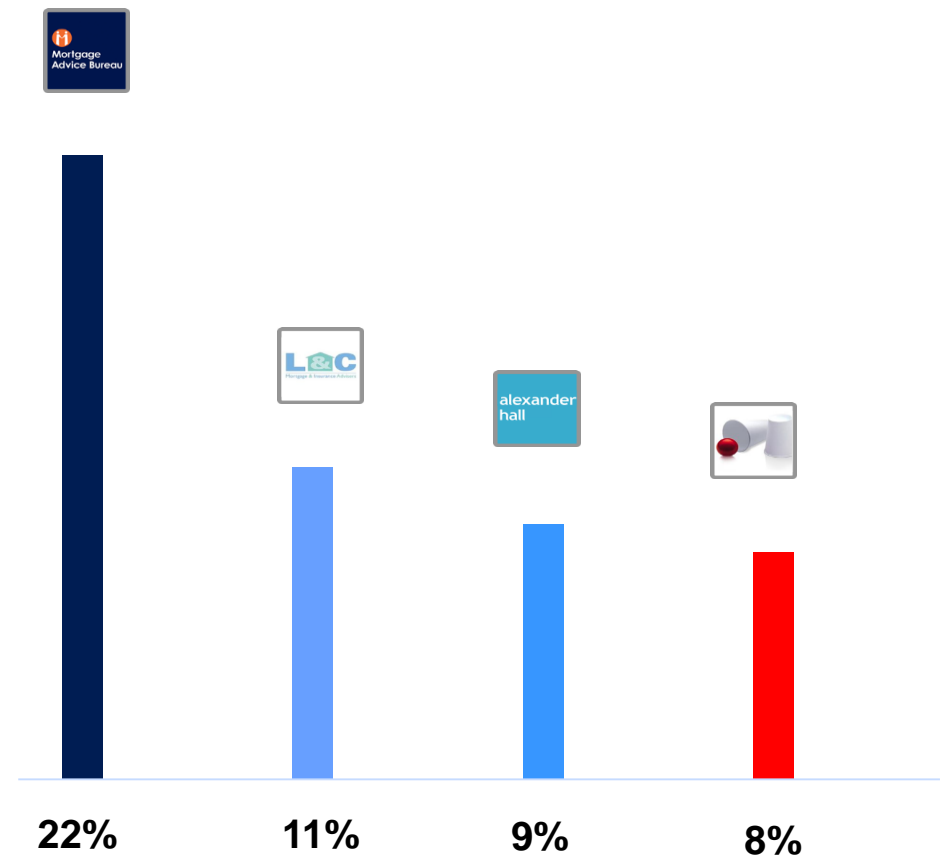
1. Includes period at Mortgage Talk

There is only one MAB

Competitive positioning



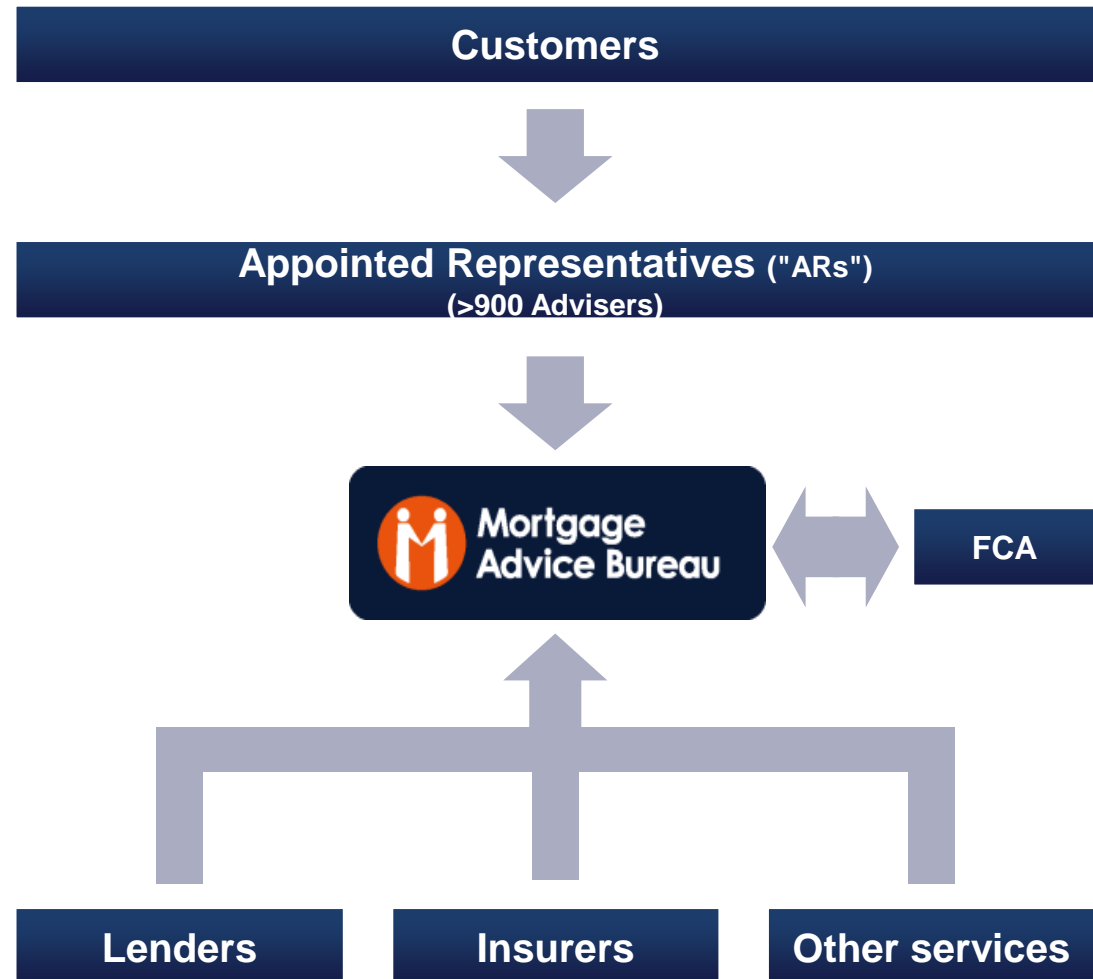
Top broker for brand awareness¹



1. Sample: 2,006 UK adults interviewed online by independent market research agency, Opinium Research, 7th-9th June, 2016

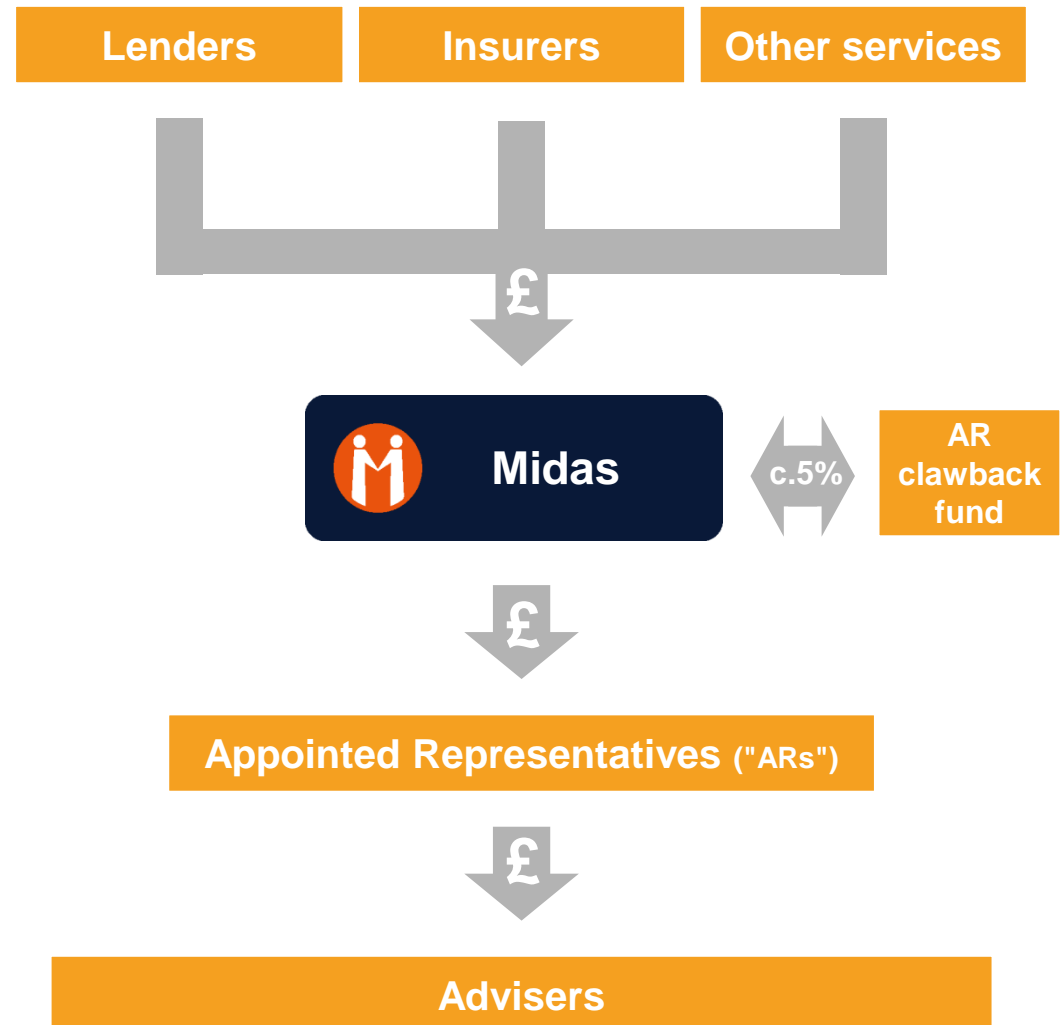
Our business model

- One of UK's leading independent networks for mortgage intermediaries, with over 130 ARs and over 900 Advisers nationwide
- Operates two models: (i) MAB-branded mortgage franchise and (ii) non-branded mortgage network
- Strong reputation for business quality, innovation and support
- Very low attrition rates of ARs
- >75% of ARs have contracts for duration of 5 years or more from commencement



Revenue and cash flow

- Highly cash generative
- All income is paid directly to MAB
- Before paying the AR, MAB also retains typically 5% of the total amount due to the AR to protect the AR and MAB against potential future clawbacks of protection commission
- This retention is held in MAB's name and is segregated through the use of a separate bank account for each AR
- MAB pays the AR weekly
- AR pays its Advisers
- Materially MAB's profits = cash



Core financial model

$$\text{No. of advisers} \times \text{Adviser revenue} = \text{Group revenue}$$

$$\text{Group revenue} - \text{Paid to ARs} - \text{Cost of sales} = \text{Gross profit}$$

$$\text{Gross profit} - \text{Cost of operations} + \text{Profits from associates} = \text{Pre tax profit}$$

Income statement

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
Revenue	43,074	31,207
Cost of sales	(33,138)	(23,612)
Gross Profit	9,936	7,595
Administrative expenses	(5,057)	(4,068)
Net movement in provision for impairment of receivables	-	15
Share of profit from associate	375	315
Operating profit	5,254	3,857
Finance income	37	78
Profit before tax	5,291	3,935
Tax expense	(942)	(632)
Profit for the period attributable to equity holders of parent company	4,349	3,303
Other comprehensive income, net of tax	2,152	-
Total comprehensive income, net of tax	6,501	3,303
Basic EPS	8.6p	6.5p
Diluted EPS	8.5p	6.4p

Income statement – additional information (1)

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
Revenue breakdown		
Mortgage related products	26,393	18,088
Insurance and other protection products	16,033	12,567
Other income	648	552
Total revenue	43,074	31,207
Other comprehensive income		
Net gain on asset held for sale	2,152	-
Other comprehensive income, net of tax	2,152	-
	30 June 2016 £'000	31 December 2015 £'000
Cash and cash equivalents		
Unrestricted cash and bank balances	9,628	8,189
Bank balances held in relation to retained commissions	6,675	5,767
Cash and cash equivalents	16,303	13,956

Income statement – EPS

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
Basic earnings per share		
Profit for the period attributable to equity holders of the parent company	4,349	3,303
Weighted average number of shares in issue (see note below)	50,461,600	50,495,749
Basic earnings per share (in pence per share)	8.6p	6.5p
Diluted earnings per share		
Total comprehensive income, net of tax	4,349	3,303
Weighted average number of shares in issue (see note below)	52,328,559	51,887,539
Basic earnings per share (in pence per share)	8.3p	6.4p

Balance sheet

	30 June 2016 £'000	31 Dec 2015 £'000
Assets		
Non-current assets		
Property, plant and equipment	2,584	2,621
Goodwill	4,114	4,114
Other intangible assets	18	27
Investments	1,020	715
Total non-current assets	7,736	7,477
Current assets		
Trade and other receivables	3,092	2,852
Cash and cash equivalents	16,303	13,956
Total current assets	19,395	16,808
Asset held for sale	2,695	-
Total assets	29,826	24,285
Equity and liabilities		
Equity attributable to owners of the parent		
Share capital	51	51
Share premium	3,042	3,042
Capital redemption reserve	20	20
Share option reserve	238	157
Retained earnings	9,190	9,635
Asset held for sale reserve	2,152	-
Total equity	14,693	12,905
Liabilities		
Non-current liabilities		
Contingent consideration	50	-
Provisions	1,016	918
Deferred tax liability	559	28
Total non-current liabilities	1,625	946
Current liabilities		
Trade and other payables	12,559	9,519
Corporation tax liability	949	915
Total current liabilities	13,508	10,434
Total liabilities	15,133	11,380
Total equity and liabilities	29,826	24,285

Cash flow statement

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
<u>Cash flows from operating activities</u>		
Profit for the year before tax	5,291	3,935
Adjustments for:		
Depreciation of property, plant and equipment	87	56
Amortisation of intangibles	9	9
Share based payments	81	51
Share of profit of associates	(375)	(315)
Dividends received from associates	315	245
Finance income	(37)	(78)
	5,371	3,903
<u>Changes in working capital</u>		
Decrease/(increase) in trade and other receivables	(240)	(381)
Increase- in trade and other payables	3,040	118
Increase/(decrease) in provisions	98	101
Cash generated from operating activities	8,269	3,741
Income taxes paid	(915)	(446)
Net cash inflow from operating activities	7,354	3,295
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(50)	(65)
Acquisitions of associates and investments	(200)	-
Cash (outflow) from investing activities	(250)	(65)
<u>Cash flows from financing activities</u>		
Interest received	37	78
Redemption of shares	-	(38)
Dividends paid	(4,794)	(1,009)
Net cash (outflow) from financing activities	(4,757)	(969)
Increase in cash and cash equivalents	2,347	2,261
Cash and cash equivalents at the beginning of year	13,956	9,270
Cash and cash equivalents at the end of the period	16,303	11,531

Quarterly gross mortgage lending data

Mortgage lending has grown at a CAGR of 12% over the last 4.5 years

