

# Investor and Analyst Presentation



## Delivering On Our Strategy

Mortgage Advice Bureau (Holdings) plc  
Final Results – Year ended 31 December 2017



**Mortgage  
Advice Bureau**

# Disclaimer

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For more detailed information, the entire text of the final results announcement for the year ended 31 December 2017, can be found on the Investor Relations section of the Company’s website [www.investor.mortgageadvicebureau.com](http://www.investor.mortgageadvicebureau.com)

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## **Peter Brodnicki** Chief Executive Officer

- Co-founded the business in 2000
- >30 years' Mortgage and Financial Services experience
- British Mortgage Awards: Business Leader of the Year (3 consecutive years)



## **Lucy Tilley** Finance Director

- Joined MAB Board in May 2015 as Finance Director
- Former corporate financier; extensive experience working with listed companies (particularly in Financial Services, inc. lead roles in IPOs of MAB, Secure Trust Bank and River and Mercantile)
- Chartered Accountant, qualified at KPMG in 1996

## 2017 Highlights

- Achieved +16% profits<sup>(1)</sup> growth
- Increased market share<sup>(2)</sup> to 4.6% (+13%)
- Gross mortgage completions up 18.5% to £11.9bn from 2016
- Growth in revenue per Adviser of 3%
- Proposed final dividend of 11.9p making total ordinary dividends of 21.4p (+17%)

## Post Period End Highlights

- Adviser numbers increase to 1,096 at 16 March 2018, strong pipeline
- Stephen Smith joins MAB Board as a Non-Executive Director
- MAB receives 'Best Mortgage Broker' award at Mortgage Strategy 2018 Awards

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<sup>1</sup> Profit before tax (2016 adjusted to exclude exceptional gain)

<sup>2</sup> Market Share is MAB gross mortgage completions as a % of UK new mortgage lending (UK Finance data)

## 2017 vs 2016

### Whole Market

- Property transactions in 2017 by **volume** were **1% lower** than in 2016
- UK gross mortgage lending in **2017** of **£258bn**<sup>1</sup>: **+5%** driven by remortgages, first time buyers and house price inflation
- Rate of house price inflation has fallen (c.5%<sup>2</sup>)
- **MAB** gross mortgage completions in 2017 of £11.9bn<sup>3</sup>: **+18.5%**
- **MAB market share** of **4.6%**: **+13%**

### Segmental movements in gross mortgage lending by value

- First time buyers: **+11%**
- Home-owner mover: **+8%**
- Home-owner remortgage: **+14%**; strong lender competition
- BTL purchase: **-28%**; stamp duty change in H1 2016
- BTL remortgage: **-4%**; tax changes for landlords April 2017

## Market Forecasts

### UK Gross Mortgage Lending

**UK Finance** projections for gross mortgage lending broadly flat estimates:

- **2018**: £260bn, **+1%**
- **2019**: £271bn, **+4%**

### Property Prices<sup>4</sup>

- House prices overall have resumed a modest growth trajectory
- National figure continues to conceal diverging trends across parts of the UK

<sup>1</sup>UK Finance data

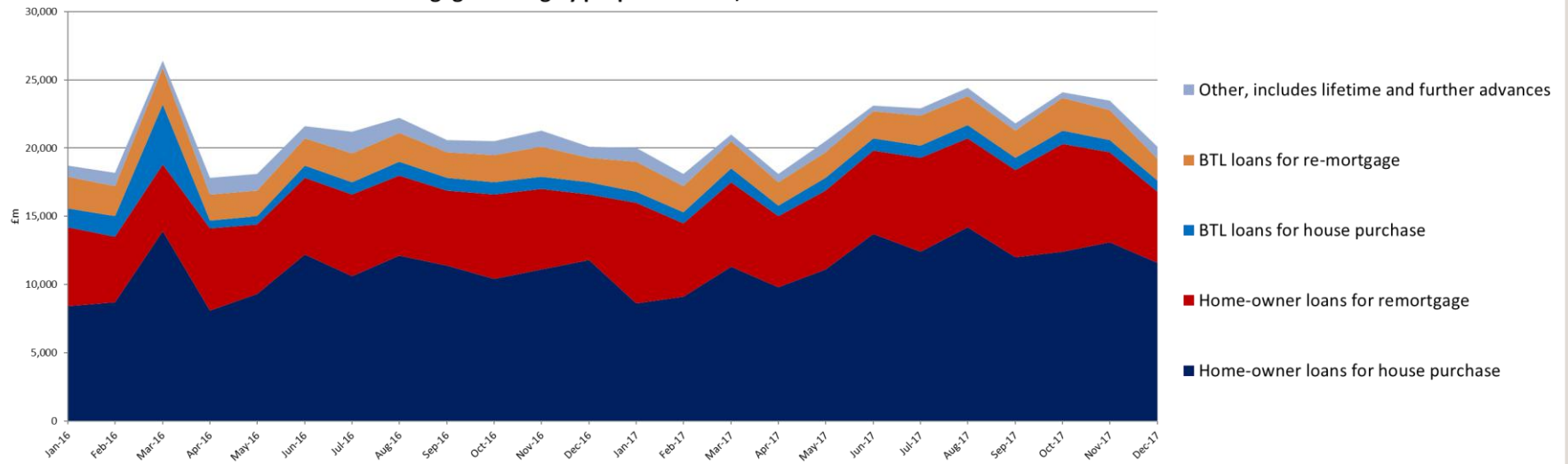
<sup>2</sup>Land Registry House Price Index

<sup>3</sup>MAB gross mortgage completions in 2016 were £10.0bn

<sup>4</sup>Recent RICS commentary

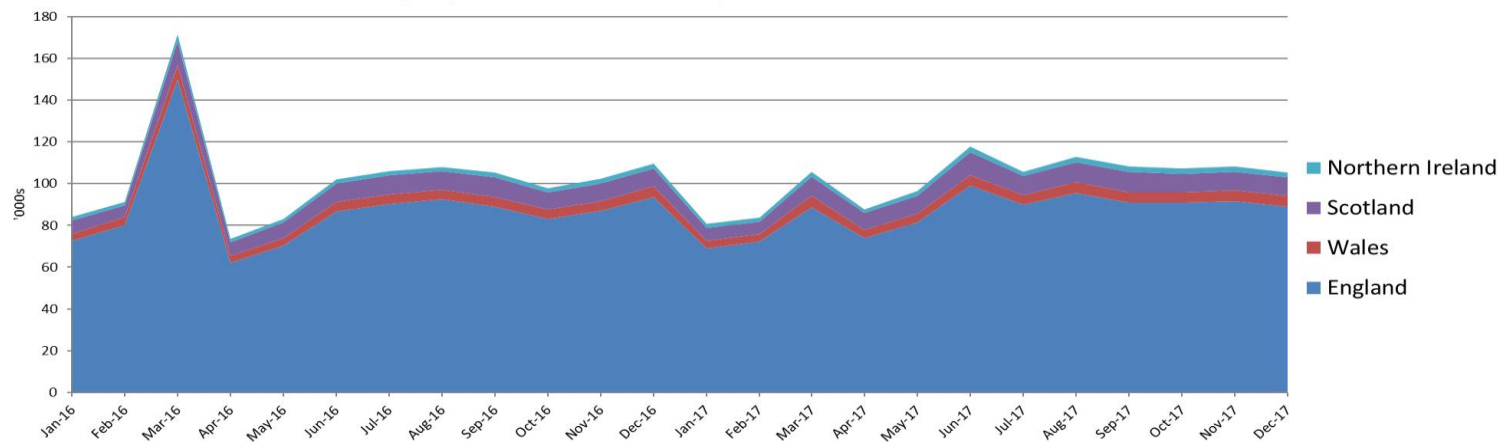
# Industry Trends

**New mortgage lending by purpose of loan, £m**



Source: UK Finance Regulated Mortgage Survey, Bank of England, UK Finance BTL data<sup>1</sup>

**Property transactions in the UK by volume**



Source: HM Revenue and Customs

<sup>1</sup> UK Finance BTL data has been used to further analyse UK Finance Regulated Mortgage Survey data

# Key Financial Highlights 2017

## Revenue

£108.8m  
+17%

## Gross Profit

£25.9m  
+17%

## Profit Before Tax <sup>1</sup>

£14.5m  
+16%

## EPS <sup>1</sup>

23.8p  
+17%

## Total Ordinary Dividends

21.4p  
+17%

## Cash Conversion <sup>2</sup>

109%

1. 2016 figure adjusted for £2.7m profit on disposal of Capital Private Finance Limited 2. Adjusted cash conversion is cash generated from operating activities adjusted for movements in non-trading items including loans to Appointed Representative firms ("ARs") and loans to associates totalling £0.7m in 2017 (2016: £0.4m), increases in restricted cash balances of £1.5m in 2017 (2016: £2.1m) and additional cash balances (2017: £nil; 2016: £nil) held due to the timing of the weekly AR commission payment in relation to the period end, as a percentage of operating profit.

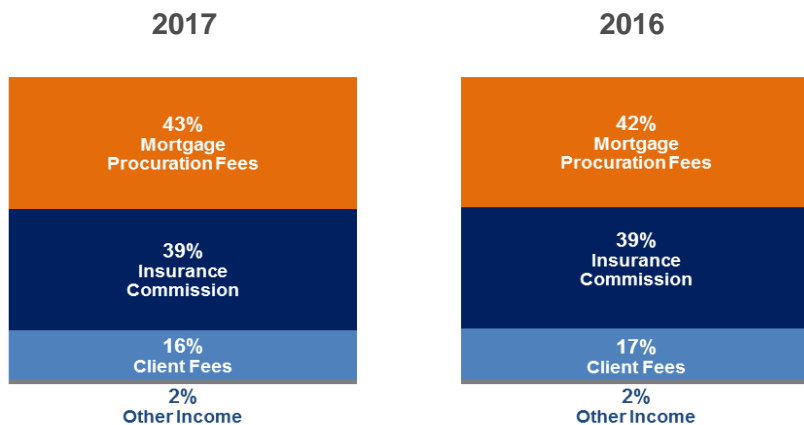


# All Income Sources Continue To Grow Strongly

Income source	2017	2016	Increase
		£m	
Mortgage procurement fees	46.8	39.4	19%
Protection and General Insurance Commission	42.8	36.4	18%
Client Fees	17.5	15.6	12%
Other Income	1.7	1.4	22%
<b>Total</b>	<b>108.8</b>	<b>92.8</b>	<b>17%</b>

Revenue increase of 17% generated from:

- +14% average Advisers
- +3% increase in revenue per Adviser
- Gross mortgage completions up 18.5%

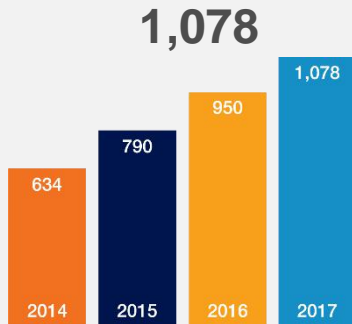


Revenue Split:

- Mix has remained broadly stable year on year
- Protection dependent on mortgage mix

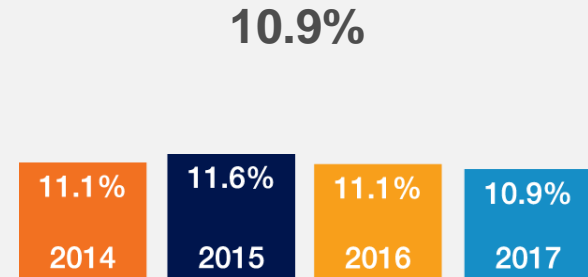
# How We Performed – KPIs

## Year end Adviser Numbers



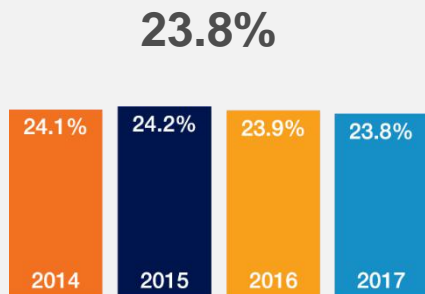
Average adviser numbers up 14% to **1,008** (2016: 888)  
1,096 advisers at 16 March 2018

## Overheads % of Revenue



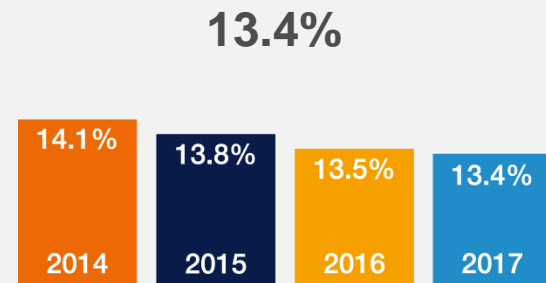
Some costs (eg. Compliance) closely correlated to growth  
Remainder of costs typically increase at a slower rate than revenue  
We expect a modest increase in our IT costs as part of our fintech development

## Gross Profit Margin (%)



Existing ARs receive slightly better terms as their revenue grows  
New larger ARs typically join on lower than average margins

## Profit Before Tax Margin<sup>1</sup>

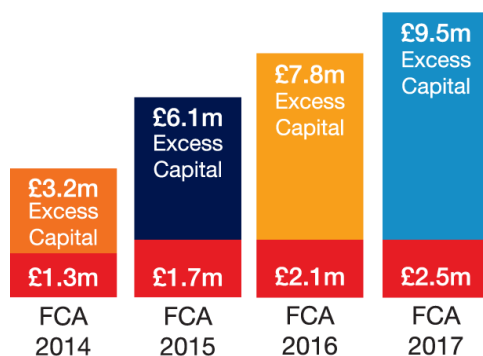


Subject to the growth in our IT costs, we would expect the scalable nature of our cost base to in part counter the expected erosion on gross margin as the business continues to grow

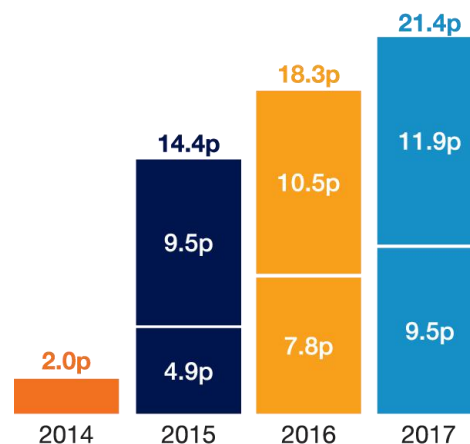
<sup>1</sup> Excludes exceptional gain in 2016 and based on adjusted profit before tax in 2014

# Strong Cash Conversion Supports Dividend Policy

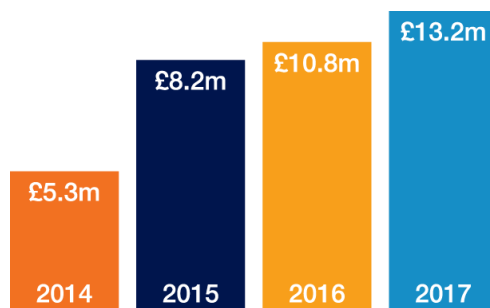
Capital Adequacy (£m)  
**£12.0m**



Ordinary Dividends since IPO  
**21.4p**



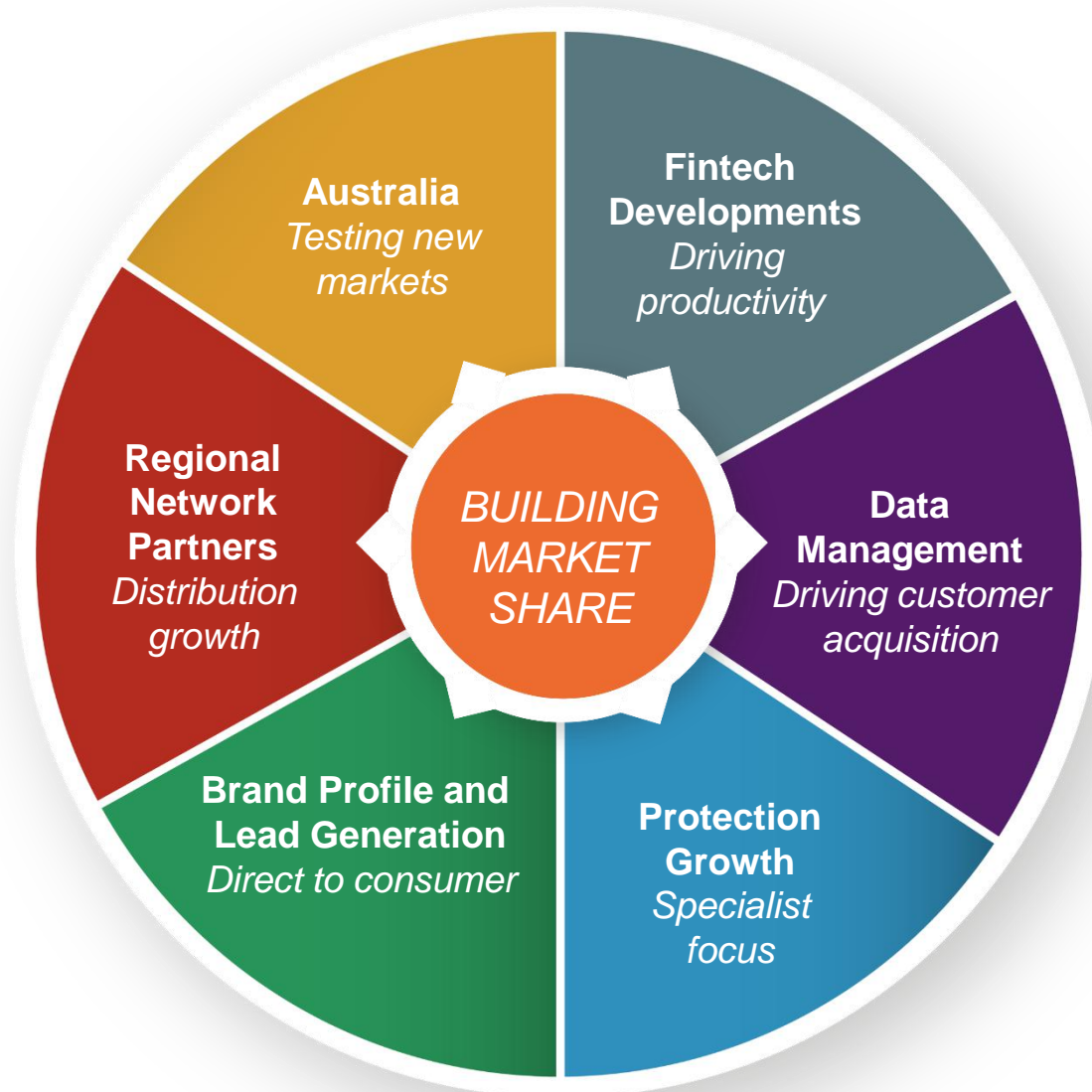
Unrestricted Cash Balances (£m)  
**£13.2m**



- MAB is highly cash generative and capital light
- Materially, operating profits = cash
- MAB requires c. 10% of PAT for increased regulatory capital<sup>1</sup> and other regular CapEx
- The 90% H2 17 proposed final dividend reflects our ongoing intentions to:
  - Distribute reserves not required to support growth in the business; and
  - Maintain a strong regulatory capital buffer

1. Regulatory capital requirement: 2.5% of regulated revenue

# Key Strategic Initiatives



# Key Strategic Initiatives

## Fintech Developments

- Fully flexible end to end digitised customer journey
- Open API integration with lenders progressing well
- Increasing customer engagement options
- Optimise customer choice/experience and adviser efficiency/productivity

## Data Management

- Use of AI to analyse existing/new data and apply profiling capabilities
- Apply decision tree algorithms for new customer journeys
- Drive more insight and business intelligence
- Increase/access new lead sources and optimise existing ones
- Keep relevant and widen engagement with existing customers; product range increase

## Protection Growth

- Proposition Director, Protection driving strategy and new processes
- Automated referral solution to AR protection specialists, including Vita
- Growth of protection specialists within AR firms
- Implementing new quote and apply solution

# Key Strategic Initiatives

## Brand Profile and Lead Generation

- First direct to consumer pilot TV campaign commences Q2 2018
- Fully leveraging UK's 'largest local broker' yet offering all digital solutions
- Brand awareness initiatives leading to increased local promotion/ investment by AR firms
- Referral model: unique single brand/national distribution model, combined with scalable telephony, both supported by digital enhancements to leverage lead sources

## Regional Network Partners

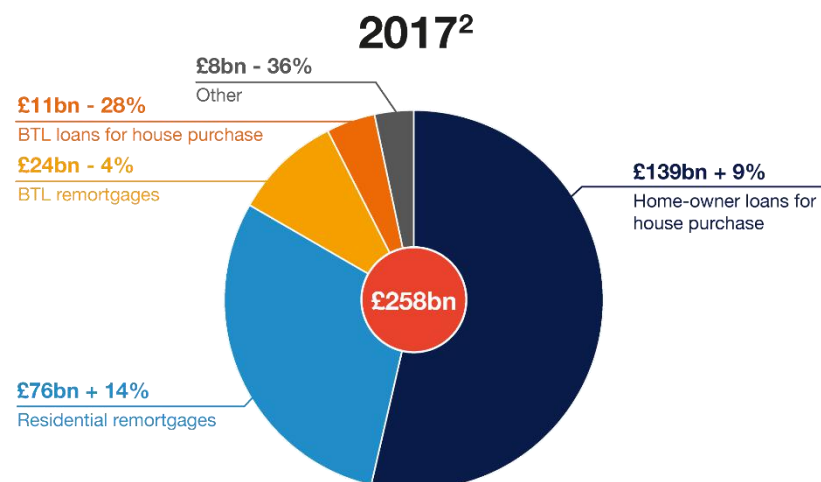
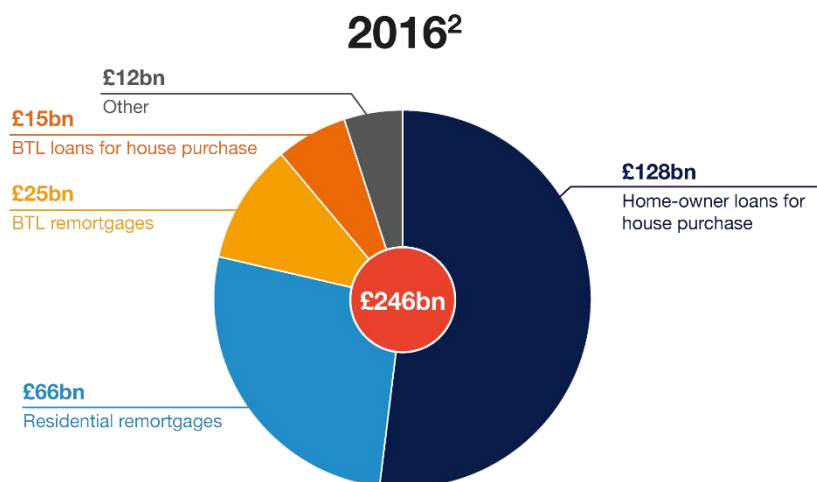
- Regional consolidation under MAB brand
- Broadening distribution options

## Australia

- Extending lead generation through bespoke servicing solutions
- Potential key regional network partners identified and engagement commenced

# Outlook

- Housing transactions expected to remain flat in 2018 and 2019
- Mortgage market expected to remain relatively flat for 2018 with a 4% increase in 2019 with growth in remortgage market a key factor
- UK Finance to confirm size of switching market during 2018<sup>1</sup>
- Technology advances and lead generation are main strategic drivers for MAB
- MAB 2020 plans progressing well; well prepared for GDPR
- Adviser number growth to continue as planned, strong pipeline
- Expect to continue track record of dividend and profit growth
- Intend to broaden the Executive Board due to growth and opportunities




<sup>1</sup> MAB estimate of £90bn for product switching market for 2016

<sup>2</sup> Pie charts based on UK Finance figures for 2016 and 2017





# 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	✓	✗	✗

Appointed Representatives: extending platform,  
building specialisation



35%

vita.

20%



25%



25%

Products related to MAB Core Business offering:



49%<sup>1</sup>



30%<sup>2</sup>



49%

Testing New Markets:



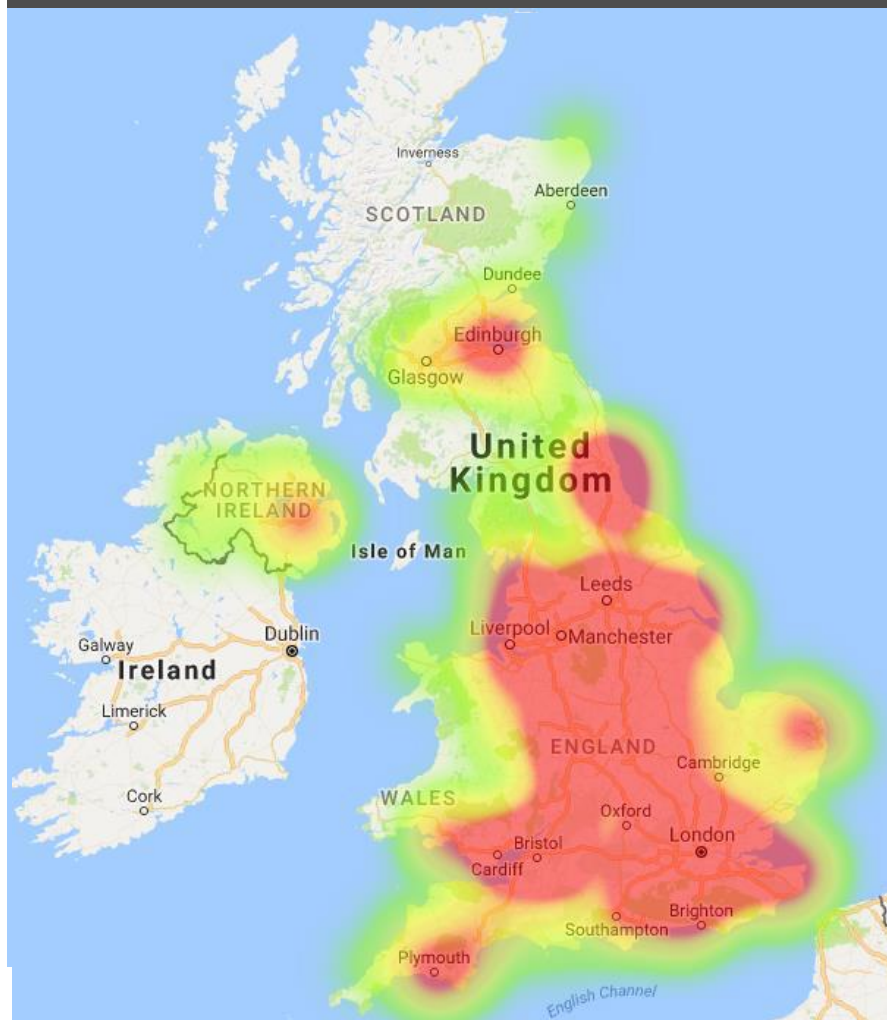
45%

<sup>1</sup> The Group has a 49% shareholding in CO2 Commercial Limited, whose 100% subsidiary is Pinnacle Surveyors (England & Wales) Limited

<sup>2</sup> The Group has an effective holding of 30% in Sort Limited and Sort Technology Limited via it's 43.25% shareholding in Sort Group Limited

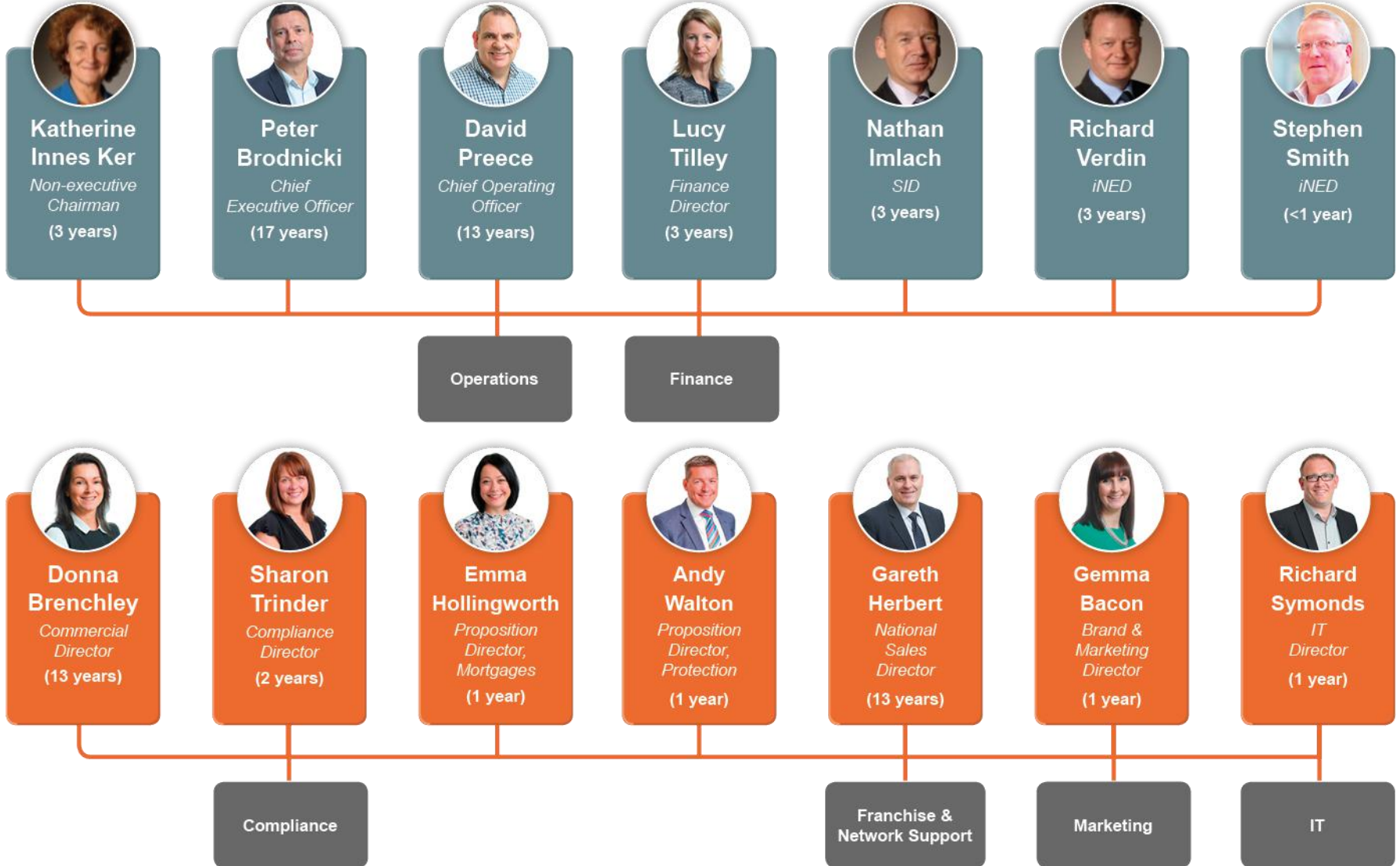
# Company Overview

## HEATMAP OF ADVISER LOCATIONS



- 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 mortgage advice to customers as well as advice on protection and general insurance
- c. 1,100 Advisers, almost all employed or engaged by ARs
- All compliance supervision undertaken by MAB employees
- Broad geographical spread across the UK, with just 7% of the Group’s revenue derived from the London market
- Developed leading in-house proprietary trading platform called MIDAS Pro
- Won over 70 awards in last 5 years

# Board and Senior Management

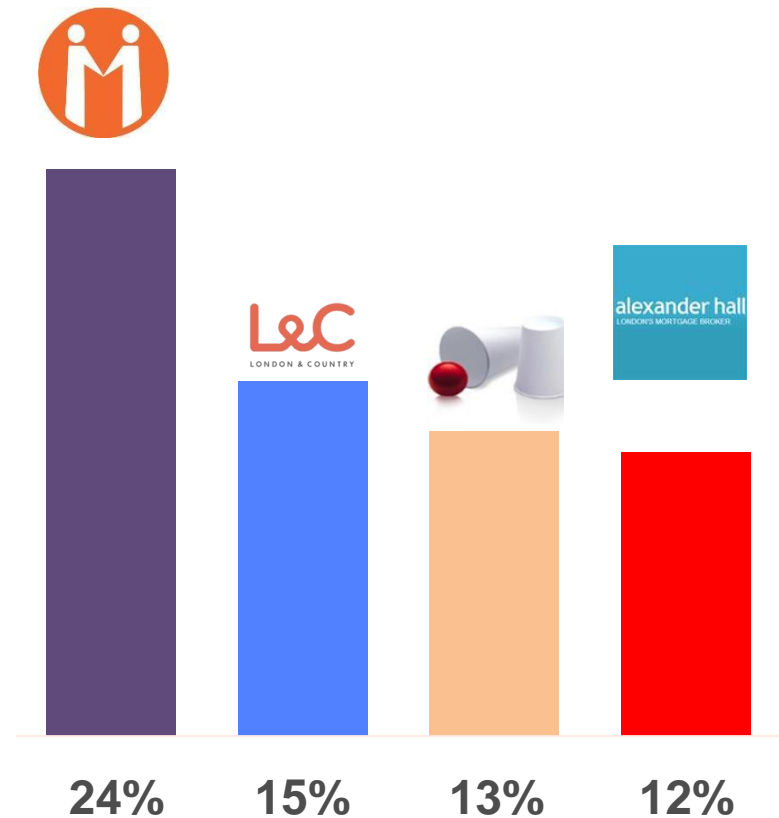


# There is only one MAB

## Competitive Positioning

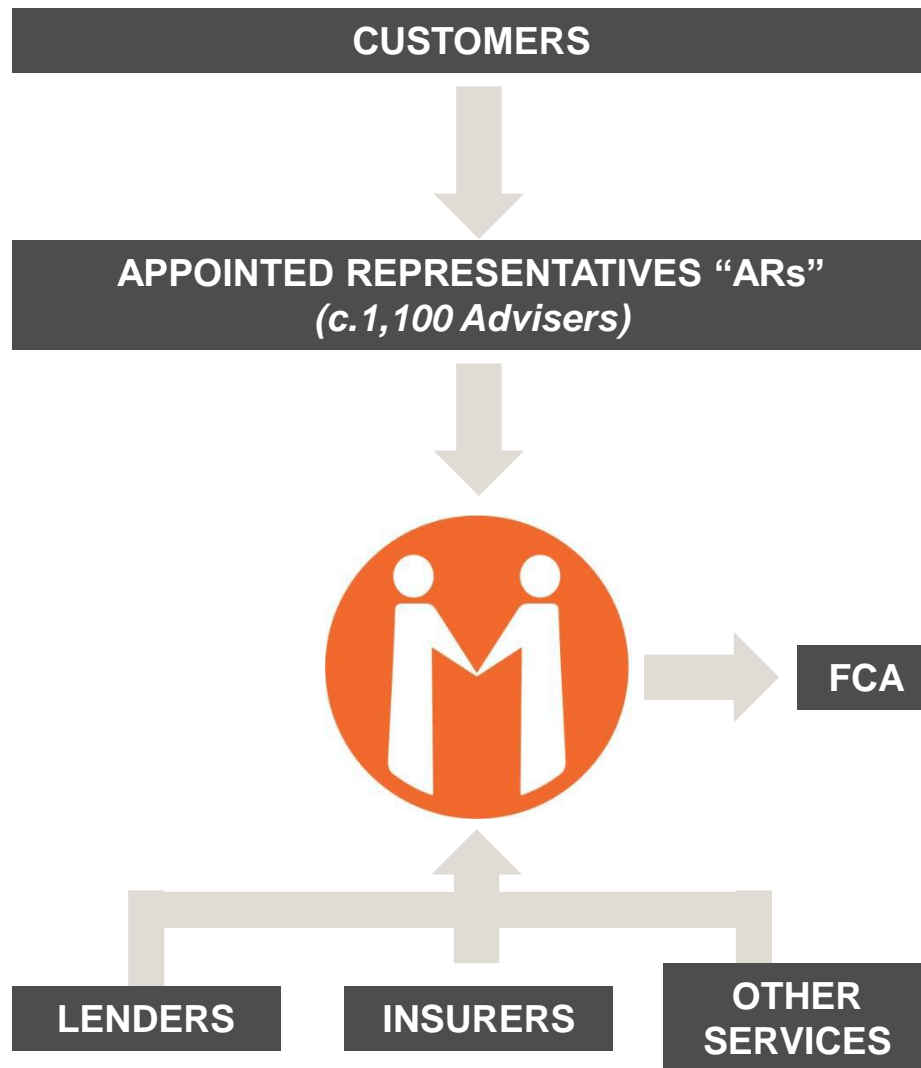


## Top Broker for Brand Awareness<sup>1</sup>



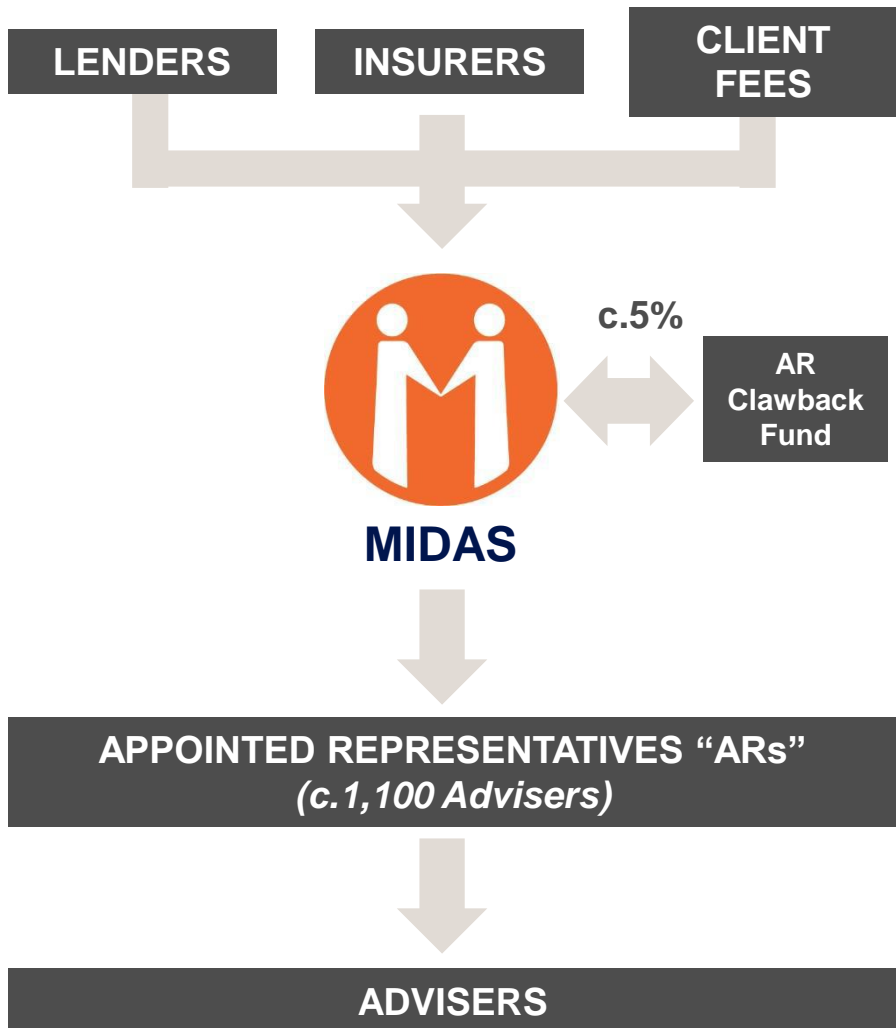
1. Sample: 2,006 UK adults interviewed online by independent market research agency, Opinium Research, 6th-8th June, 2017

# Our Business Model



- One of UK's leading independent networks for mortgage intermediaries, with over 140 ARs and c. 1,100 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
- Over 85% 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, from which it deducts its share of income
- 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

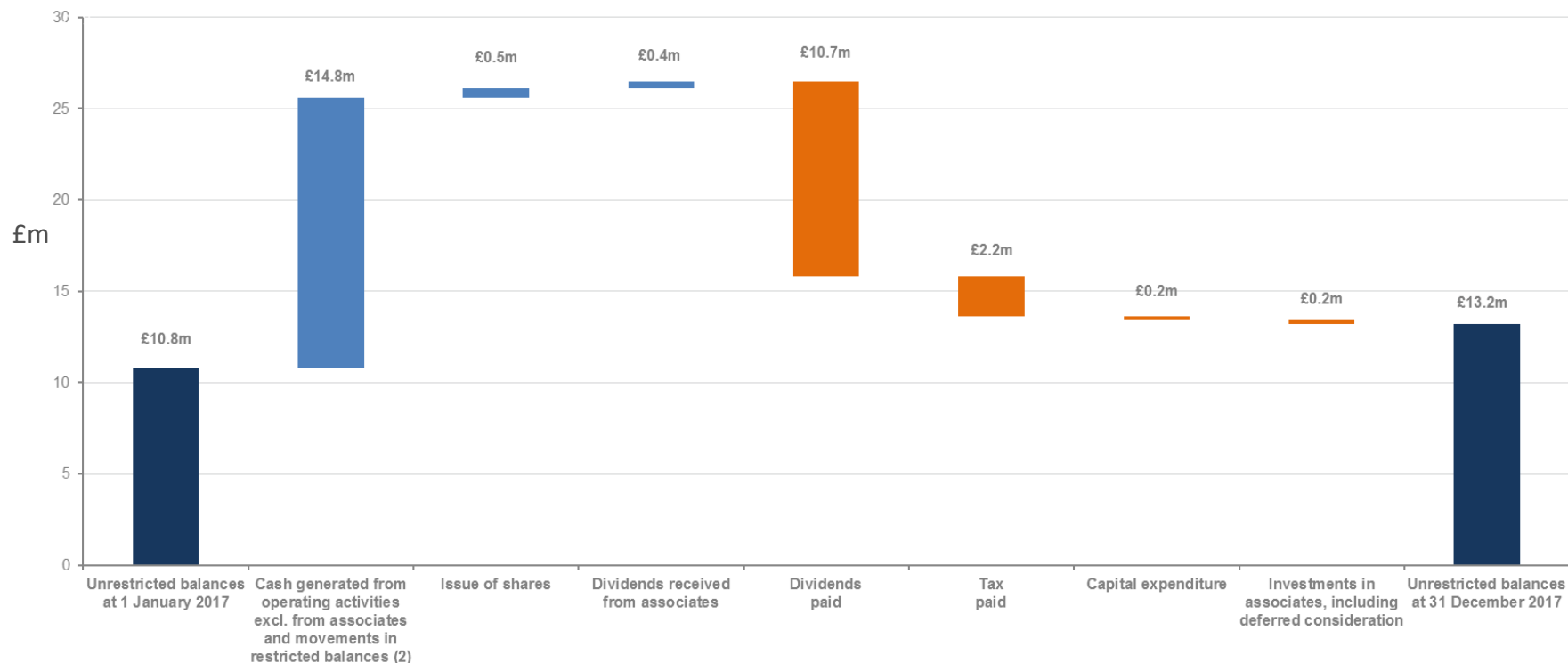
$$\text{No. of Advisers} \times \text{Adviser Revenue} = \text{Group Revenue}$$

$$\text{Group Revenue} - \text{Paid to ARs} - \text{Cost of Sales} = \text{Gross Profit}$$

$$\text{Gross Profit} - \text{Cost of Operations} + \text{Profits from Associates} = \text{Pre-Tax Profit}$$



# Cash Balance Waterfall: Unrestricted Balances<sup>(1)</sup>



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

(2) Cash generated from operating activities of £16.6m, less dividends received from associates of £0.35m and movements in restricted balances of £1.5m

# Income statement

	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
<b>Revenue</b>	108,847	92,848
Cost of sales	(82,945)	(70,700)
<b>Gross Profit</b>	<b>25,902</b>	<b>22,148</b>
Administrative expenses	(11,909)	(10,296)
Share of profit from associate	500	611
<b>Operating profit</b>	<b>14,493</b>	<b>12,463</b>
Finance income	42	73
Exceptional profit on disposal of asset held for sale	-	2,690
<b>Profit before tax</b>	<b>14,535</b>	<b>15,226</b>
Tax expense	(2,494)	(2,307)
<b>Profit for the year attributable to equity holders of parent company</b>	<b>12,041</b>	<b>12,919</b>
<b>Total comprehensive income attributable to equity holders of parent company</b>	<b>12,041</b>	<b>12,919</b>
Basic EPS	23.8p	25.6p
Diluted EPS	23.2p	25.2p

# Income Statement - additional information Mortgage Advice Bureau

Revenue Breakdown	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Mortgage related products	64,289	55,011
Insurance and other protection products	42,854	36,444
Other income	1,704	1,393
<b>Total Revenue</b>	<b>108,847</b>	<b>92,848</b>
Staff Costs	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Wages and salaries	7,271	6,410
Share based payments	670	315
Social Security Costs	739	712
Defined contribution pension costs	188	150
<b>Total staff costs</b>	<b>8,868</b>	<b>7,587</b>
Average number of people employed during the year	157	141
Exceptional Gain	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Profit on disposal of asset held for sale	-	2690
Cash and Cash Equivalents	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Unrestricted cash and bank balances	13,170	10,811
Bank balances held in relation to retained commissions	9,381	7,900
<b>Cash and cash equivalents</b>	<b>22,551</b>	<b>18,711</b>

# Income Statement - EPS

Basic Earnings per Share	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Profit for the year attributable to equity holders of the parent company	12,041	12,919
Weighted average number of shares in issue	50,697,207	50,461,600
<b>Basic earnings per share (in pence per share)</b>	<b>23.8p</b>	<b>25.6p</b>
Diluted Earnings per Share	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Profit for the year attributable to equity holders of the parent company	12,041	12,919
Weighted average number of shares in issue	51,948,051	51,238,503
<b>Basic earnings per share (in pence per share)</b>	<b>23.2p</b>	<b>25.2p</b>
Adjusted earnings per share	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
Profit for the year attributable to equity holders of the parent company	12,041	12,919
Adjusted for the following items net of tax:		
Profit on disposal of asset held for sale	-	(2,690)
<b>Adjusted earnings net of tax</b>	<b>12,041</b>	<b>10,229</b>
Weighted average number of shares in issue	50,697,207	50,461,600
<b>Adjusted basic earnings per share (in pence per share)</b>	<b>23.8p</b>	<b>20.3p</b>

# Balance Sheet

	31 Dec 2017 £'000	31 Dec 2016 £'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,648	2,720
Goodwill	4,114	4,114
Other intangible assets	98	9
Investments	1,339	1,008
Deferred tax asset	925	72
<b>Total non-current assets</b>	<b>9,124</b>	<b>7,923</b>
<b>Current assets</b>		
Trade and other receivables	4,426	3,256
Cash and cash equivalents	22,551	18,711
<b>Total current assets</b>	<b>26,977</b>	<b>21,967</b>
<b>Total assets</b>	<b>36,101</b>	<b>29,890</b>
<b>Equity and liabilities</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	51	51
Share premium	3,574	3,042
Capital redemption reserve	20	20
Share option reserve	1,450	380
Retained earnings	13,071	11,680
<b>Total equity</b>	<b>18,166</b>	<b>15,173</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Contingent consideration	-	50
Provisions	1,496	1,219
Deferred tax liability	51	40
<b>Total non-current liabilities</b>	<b>1,547</b>	<b>1,309</b>
<b>Current liabilities</b>		
Trade and other payables	14,999	12,405
Corporation tax liability	1,389	1,003
<b>Total current liabilities</b>	<b>16,388</b>	<b>13,408</b>
<b>Total liabilities</b>	<b>17,935</b>	<b>14,717</b>
<b>Total equity and liabilities</b>	<b>36,101</b>	<b>29,890</b>

# Cash Flow Statement

	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 £'000
<b>Cash flows from operating activities</b>		
Profit for the year before tax	14,535	15,226
Adjustments for:		
Depreciation of property, plant and equipment	201	193
Amortisation of intangibles	14	18
Profit on disposal of asset held for sale	-	(2,690)
Share based payments	333	223
Share of profit of associates	(500)	(611)
Dividends received from associates	353	567
Finance income	(42)	(73)
	<b>14,894</b>	<b>12,853</b>
<b>Changes in working capital</b>		
(Increase)/decrease in trade and other receivables	(1,159) <sup>1</sup>	(405)
Increase in trade and other payables	2,594	2,886
Increase in provisions	277	301
<b>Cash generated from operating activities</b>	<b>16,606</b>	<b>15,635</b>
Income taxes paid	(2,151)	(2,278)
<b>Net cash inflow from operating activities</b>	<b>14,455</b>	<b>13,357</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(129)	(292)
Purchase of intangibles	(103)	-
Proceeds from sale of associate	-	2,694
Acquisitions of associates and investments	(184)	(203)
Deferred consideration on acquisition of associates	(50)	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(466)</b>	<b>2,199</b>
<b>Cash flows from financing activities</b>		
Interest received	31	73
Issue of shares	532	-
Dividends paid	(10,712)	(10,874)
<b>Net cash outflow from financing activities</b>	<b>(10,149)</b>	<b>(10,801)</b>
Net increase in cash and cash equivalents	3,840	4,755
Cash and cash equivalents at the beginning of year	18,711	13,956
<b>Cash and cash equivalents at the end of the period</b>	<b>22,551</b>	<b>18,711</b>

<sup>1</sup>Excludes interest income accrued on loans to associates