FY24 Investor presentation commentary

Wednesday 21 August 2024

PEXA ANNOUNCES STRONGER FY24 RESULTS

PEXA Group Limited (PEXA, the Company, or the Group) today announced its financial results for the 12 months ended 30 June 2024 and an update on its performance and outlook.

Accompanying commentary from Group Managing Director and Chief Executive Officer Glenn King and Group Chief Financial Officer Scott Butterworth is provided below.

Group Managing Director and Chief Executive Officer, Glenn King

Good morning and thank you for joining us on FY24 full year earnings call update. I'm Glenn King, PEXA's Group Managing Director and Chief Executive Officer, and with me this morning is our Group Chief Financial Officer, Scott Butterworth.

Slide 2

Before I begin, in the spirit of reconciliation, I would like to acknowledge the Traditional Custodians of country throughout Australia and their connections to land, sea, and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples here today.

Slide 3

Today's briefing will begin with an overview of PEXA's FY24 performance. I will also touch on how we delivered these results, and the work over the year to deliver against our priorities.

Scott will then walk you through the detailed operational performance and financial results for the Group and I will come back and provide a perspective on the new financial year.

We will then be happy to take your questions.

Turning to Slide 4.

Slide 4

The momentum in the business, in terms of financial performance highlights can be seen on this page.

For example, Group revenue, Operating EBITDA, and free cash flow all made positive gains, delivered by revenue growth, cost and capex management and operational improvements.

Non-Exchange revenue has improved and now represents 15% of total business revenues, highlighting the growth of our new revenue streams with the PEXA Group, which were non-existent at the time of the IPO in 2021.

At a Group level, our operating margin was 36.5% against guidance of greater than 35%. This was 1.7 ppts higher than the prior year on a like for like basis.

The Exchange continues to be the foundation of the business, with improved revenues and margin which at 54.5% is up almost 1 percentage point on the prior year.

Overall, NPATA was $21m. This increased by 22%. This was driven by a combination of factors including

- Higher revenue
- Improved margins
- Combined with controlled cost growth.

Slide 5

Turning to Slide 5. Let me summarise our strategic position today:

- The Exchange business continues to demonstrate its strength and prominent position as a digital infrastructure asset. Its resilience, national coverage and financial performance are testament to this.
- Digital Solutions [which was previously Digital Growth] brought Value Australia to market to complement the other businesses. We now have a suite of bundled and unbundled solutions to support our customers. This business also achieved Operating EBITDA break even for the month of June, as forecast
- International – the build of the platform, in modular form, for multiple markets remains on schedule, with our estimate that up to 85% of the platform build is reusable in multiple jurisdictions. This year we also successfully integrated the platform into Optima Legal and following the NatWest announcement, the momentum with meaningful discussions with lenders has accelerated. We currently have additional lenders, including Tier 1 lenders, requesting to participate in the BOE – PEXA testing slots.

All these activities are underpinned by improved efficiencies and by the capabilities that we continue to invest across PEXA - our people, technology and ESG.

We continue to be well placed to deliver given our business momentum and our sound financial position.

Turning to Slide 6.

Slide 6

Across all our brands and segments, we have a broad, interconnected customer base of government, financial institutions, lawyers, conveyancers and developers.

In Australia, we support approximately 160 Financial Institutions, more than 10,000 conveyancing and legal Practitioners, more than 70 developers, and 345 local councils.

In the UK we provide services to approximately 18 FIs (including 7 out of 8 the largest institutions) and more than 2,000 Practitioners.

Turning to Slide 7.

Slide 7

Our consistent goal and strategy is to deepen our customer service and deliver long-term sustainable value in line with our purpose of ‘connecting people to place’.

To do this in Australia:

We support our customers by enhancing our Exchange to maintain Australia’s leading electronic lodgement platform.

We have further extended our relationships with existing customers with property insights and other digital solutions that use our distribution and data capability.

Internationally, we are expanding, utilising our intellectual property to solve customer problems in markets with Australia-like land title systems, starting with the UK.

Turning to Slide 8.

Slide 8

In FY24, we brought together the PEXA Exchange and the Digital Solutions business under a single Australian leadership structure.

And in the year, the Exchange platform maintained and strengthened its position. Transaction volumes grew as did our market penetration.

Customer satisfaction and platform uptime remained at 90 and 100% respectively. Importantly, we rolled out more APIs to our FI customers and PMS providers contributing to improved service.

These positive outcomes supported our improved Exchange margin.

Overall, the Exchange in FY24 had a solid year despite stubborn inflation and relatively high interest rates presenting challenging conditions.

Despite a modest overall contribution, and below our expectation, Digital Solutions remains strategically important and is growing – providing the foundation to build non-regulated revenues as the economy improves when the rate outlook restores investor confidence.

And Digital Solutions also delivered break even operating EBITDA for the month of June (as forecast) due to our focus on financial management.

Slide 9

There has been significant commentary around interoperability. And it is important to note interoperability requires multiple participants such as banks, land title offices, revenue offices and so on. It is complex with questionable consumer benefits.

PEXA was formed out of a public / private partnership. It is a successful COAG initiative which materially transformed property transaction, delivering continued and ongoing material benefits to all the stakeholders and also material value to Australian taxpayers.

The PEXA Exchange platform contributes approximately $300 million per annum of savings to industry – while the cost to consumers is as little as 0.01% on an average property transaction. I think this point is absolutely critical given we are heavily price regulated but have been able to demonstrate 90% customer satisfaction and on time settlement for major Banks at over 80%.

PEXA has continued to invest heavily to ensure innovation and improvements for customers … and we should note there are also numerous other regulatory priorities supported by PEXA such as the Tasmanian and NT e-conveyancing roll out.

We will continue to work actively with the regulators on well-thought through customer led reform.

Turning to the UK on Slide 10.

Slide 10

Over the last year, UK market activity was challenging which was depicted by lower mortgage volumes and this impacted our business including Optima, Smoove and delivery against our FY24 targets.

However, green shoots are emerging, and we are seeing conditions improving.

We remain confident of our UK aspirations due to our unique position, our platform progress, size of the market, consumer needs, government policy and now our distribution network.

Let me touch on the points as referenced on the Slide.

Firstly, our PEXA platform is established, unique and tracking well. We have had several FIs complete testing with PEXA Pay including two of the top ten lenders and we continue to progress both onto our platform. Also note those that have PEXA Pay tested represent approximately 20% of the UK mortgage flow.

Since NatWest, there is growing interest, momentum, active discussions and engagement with lenders, including the majors. It is clear that FIs want to explore and test the benefits of PEXA.

It is important to note that onboarding though takes time as it includes Bank of England providing testing slots and these slots are limited. PEXA is working constructively with BoE and FIs to streamline this where possible.

Secondly, the strength of our technology and PEXA UK platform progress is demonstrated by Shawbrook Bank's successful completion of market-leading re-mortgage transaction in 36-hours. And the PEXA platform delivery is progressing with our UK S&P build underway.

Thirdly, the acquisition of Optima Legal and Smoove provides us with distribution scale in terms of FI and Conveyancing customers, and mortgage processing flow. During the year we completed the integration of Optima Legal into the PEXA Tech and also now working towards the conversion of the customer base onto the PEXA platform.

Slide 11

Turning to Slide 11. From FY20 to FY24, we have spent approximately $127m on our International platform. A platform which is unique in its modular design and potential reusability for multiple international markets.

In fact, our expectation is that 85% of our platform is reusable in differing markets. We also anticipate that the UK platform tech spend will reduce over the future years.

Slide 12

I wanted to highlight our focus on our sustainable business. For example, we made positive steps towards operational efficiencies, gender parity within our leadership group; strong reputation with our stakeholders and community at large; as well as our continued focus on sound ESG practices.

You can see more of our work with today's publication of our inaugural ESG report… this details our ongoing partnerships with organisations such as Homes for Homes, our efforts to tackle entrenched homelessness and policy reform in areas of housing affordability; and our continued maturity in our ESG governance practices.

I'll now hand over to Scott to walk you through the financials in more detail.

Group Chief Financial Officer Scott Butterworth

Slide 13

Thank you, Glenn. As Glenn indicated, I will now spend some time taking you through the Group's financial performance over the past year. In general, we have taken a good step forward with our results this year reflecting on focus and discipline.

Slide 14

Before starting, could I please ask you to turn to Slide 14.

As the Slide shows, this section is presented on a pro forma basis, unless otherwise stated. To assist with comparability between periods, the pro forma analysis contains the full FY23 and FY24 effects of the various operating businesses acquired during that period.

'As published' information for our businesses is contained in the appendices to this pack.

Slide 15

I turn now to Slide 15, which sets out PEXA's overall financial performance for the year.

Revenues increased by 10% on a pro forma basis, reflecting growth in the Exchange, Digital Solutions, and Smoove, offset by lower revenues in Optima Legal.

Operating expenses were well controlled, growing by only 4% on a pro forma basis. This was the net result of the benefits of our Productivity Enhancement Program, offset by the effects of capability investments and underlying cost inflation.

Pro forma operating EBITDA increasing by 22%, and EBITDA grew by 15%, with the difference relating to Specified Items which grew during the year, as will be discussed in a few moments.

Reflecting the positive revenue and expense jaws experienced by the Group, our operating EBITDA margin expanded by about 300bp during the year.

Capex was broadly flat at around $69m, with spend on regulatory matters, API building and integration activities being offset by lower spend on customer enhancements.

Given this profile, operating cashflow yield increased by 4 percentage points during the year.

Slide 16

Turning now to Slide 16, I want to spend a few moments on the various line items below operating EBITDA.

Firstly, specified items increased by about $9m during the year. Restructuring costs were up by $10-$11m, driven by redundancy costs of $7m and non-cash impairments of $4m. This increase was partially offset by a net $3m reduction in other costs, mostly driven by lower professional fees.

Secondly, depreciation and amortisation costs increased by about $13m. This was due to the carry forward effect of assets constructed in the current and previous periods, and the amortisation of assets obtained through our recent acquisitions. Slide 40 provides more information on the drivers of amortisation during the year.

Thirdly, net finance charges fell by about $0.4m during the period, despite an increase in average debt. This was due to higher Group and source account balances, and a higher earning rate on those balances.

Lastly, income tax fell by about $9m during the period. This is largely due to the non-recurrence of the tax credit write-off that we experienced in FY23. However, you will note that our effective tax rate remains high. This is because of the tax expense attributable to our profitable operations in Australia, and the losses incurred in the UK, which out of conservatism, we only partly tax effected.

Slide 17

I will now review the performance of our underlying businesses, starting with Slide 17 and the Exchange.

As you can see from the Slide, we have seen a modest, circa 70bp, increase in market level transactions during FY24 relative to FY23. However, PEXA volumes increased by 1.6% over the period, reflecting an increase of about 1ppt in our market penetration. The increased volumes were skewed to the more profitable transfer segment, with our refi mix falling by around 300bp in the period.

Slide 18

Having said that, as shown on Slide 18, there has been some unevenness in transfer volumes across our various jurisdictions. Overall, national PEXA transfer volumes reached 1Q22 levels during 1Q24, led by growth in Sydney, Brisbane and Perth, and in the Queensland regions, offset by slower growth in Melbourne and regional Victoria and in South Australia.

Slide 19

Turning now to Slide 19, these market and other dynamics have had a favourable impact on our economics.

Exchange revenues increased 11%, mainly due to CPI-linked repricing at the beginning of the year and improved transaction mix, with smaller effects from market growth and improved coverage.

Expenses grew by 9%, reflecting inflation and the cost of investing in capabilities such as data management and sales, offset by one-off cost improvements and on-going efficiency benefits, and the effects of capitalisation.

Overall, operating EBITDA increased by 13%, and EBITDA rose by 12%. Specified items for the Exchange mainly reflected restructuring costs.

Capex was relatively flat, with increased regulatory spend (including on the interoperability program) and on our API suite being offset by lower spend on customer enhancements and support, including running down the customer enhancement spend associated with our Salesforce implementation which occurred in FY23.

The effect of these movements was that the Exchange's operating EBITDA margin increased to 54.5%, an increase of about 80bp, and its operating cashflow yield increased by around 220bp to reach 41.6%.

Slide 20

I will now turn to the performance of Digital Solutions, starting with Slide 20.

Overall, the year saw good improvements in customer demand for Digital Solutions products. Particularly pleasingly, ID's proposal pipeline grew, and, its subscription win rate was generally solid. We also saw a good uplift in new business sales across our product portfolio, whilst subscription churn was well managed. As a result, we saw improved revenues across the period, underpinned by a growth in subscription revenue, alongside growing levels of project activity.

To put these dynamics in a business context, ID benefited from record revenues during the period, and Value Australia made its inaugural sales, including to major banks. Land Insight also settled well into the portfolio, making its first ever Financial Institution sale, and we continued to support demand for transaction solutions such as workflow and FX products.

Slide 21

Slide 21 sets out the economics of Digital Solutions. As you can see, pro forma revenues grew by 8%, even after absorbing the non-recurrence of a large one-off transaction fee which we received in FY23.

Notwithstanding the positive momentum during the year, we had been targeting a higher revenue outcome for the business.

However, to offset this shortfall in our expectations, we did take steps to achieve half-on-half reductions in the business' operating costs, which fell by $7m over the period. The cost reduction reflected four factors. First, professional fees fell, reflecting the end of the various market entry studies we performed in FY23. Second, we managed our discretionary expenditures more tightly. Third, we benefited from our Productivity Enhancement Program, particularly with respect to removing overheads and duplication. Fourthly, we were able to benefit from the investments made in Group-wide infrastructure, such as data management.

Overall, these effects mean that we have been able to break even in the business at the Operating EBITDA line as we exited June 2024, and the business' operating loss narrowed by $4.6m in 2H24.

You will note that Specified Items did step up during the period. This reflected a modest increase in earn out costs, and, primarily, the cost of restructuring the business and the non-cash cost of impairing some of the business' initial 'in house' built products.

We have also started stepping down our capex, particularly in 2H24, albeit there is still some work to do in FY25 on building out Value Australia's capabilities.

The effect of these changes is that the business' operating EBITDA margin and operating cashflow yield improved during the year, particularly in the second half.

In other matters, we have previously guided to a revenue target of $50m for Digital Solutions. This was based on organic and inorganic activity. As previously said, and in line with our capital management framework, we are not currently planning any material acquisitions for this business.

As a result, rather than focussing on a revenue target, management's objective is to drive appropriate returns from our existing portfolio of assets, and achieving value creating, capital efficient pathways towards scale. The effect of this is that we are withdrawing the previous guidance provided on Digital Solutions.

Slide 22

I will now turn to Slide 22, which provides a snapshot of market activity in the UK. As you can see, market re-mortgage volumes have remained at below trend levels as UK consumers have adopted a 'wait and see' attitude to the Bank of England's rate cycle. There has also been somewhat of a trend away from 'fees assisted' remortgages of the type performed by Optima Legal, towards 'cash back' offers.

Sale and purchase volumes have been impacted by similar interest rate issues as well as the short recession that occurred in the September and December quarters of 2023. However, we did see a pick-up in housing market activity during the June 2024 quarter.

Slide 23

As additional context for the performance of International, Slide 23 describes movements in the PEXA platform sales pipeline in the UK. As Glenn stated, we announced on May 2 that we are working with NatWest and another large lender in the UK, and our work with them remains on-going.

Additionally, we have gained agreement from two large banks, and four smaller ones, to conduct Bank of England testing of the payment flows associated with our platform. Further activity also includes working with an additional two smaller institutions to bring them on to our platform.

Finally, PEXA remains focussed on working towards its ambition of achieving:

- Remo market share of 25-40%
- S&P market share of 25%

There is momentum and engagement with lenders. Building on this, our desire and focus is to work towards achieving these market share goals on a run rate basis by the end of calendar 2025 (Remo) and 2027 (S&P). However, because of external factors beyond PEXA's control, the timing of when these market share aspirations may be achieved is inherently uncertain. We note that management and Board continue to heavily scrutinize our progress in the UK and the expenditures we are incurring in respect of the market.

Slide 24

I turn now to Slide 24, which sets out the results for International.

Pro forma revenues were relatively flat over the period. We saw a 16% pro forma increase in Smoove revenues, largely due to improved sale and purchase volumes, repricing during the period, and improved search revenues. However, this was offset by lower Optima Legal revenue, mainly due to lower market activity and lower average share than in FY23, albeit there was improvement in this latter metric during the year.

Operating expenses did step up during the period by 9%. This was due mainly to the investments we made in PEXA UK as we increased our platform development and commercialisation activities. Costs in Smoove were flat, with the impact of staff reductions offsetting cost inflation. Optima Legal costs were also flat, with the benefits of the capacity release made in 1H24 being offset by the costs of improving the business' employee proposition and normalising bonus arrangements.

We also saw Specified Items increase by $3.3m during the period, mainly due to the costs of integrating Optima Legal and restructuring activity.

Capex was relatively flat, with increased sale and purchase development and integration costs offsetting lower spend on building our remortgage proposition.

Overall, operating cash outflows increased by about $8.8m over the period, mainly due to increased PEXA UK operating costs and Optima Legal losses.

Slide 25

I now want to return to Group matters and discuss our cashflows and balance sheet shape, as set out on Slide 25. As you can see, the effect of our improved profitability, together with improved working capital management, and flat capex has led to an increase in cashflow conversion and, consequently free cashflow.

Overall, free cashflow increased by about 175% to reach $38.5m for the year, and we ended the period with a cash balance of $90.5m, after paying down about $10m of debt in 2H24.

Slide 26

Slide 26 sets out further matters relating to our balance sheet.

Firstly, as you can see, we re-shaped our debt facility during the period, replacing our previous arrangements with a longer tenor, more flexible and larger facility.

Secondly, we have also benefited from an increase in average cash balances (associated with our own Group cash balances and our third-party source account) to about $380m, and an earning rate that has improved by 150bp over the period.

Slide 27

Turning now to Slide 27, our improved earnings and relatively flat net debt has meant that we have continued to see a continuation of the balance sheet deleveraging which started in 1H24.

Importantly, our net debt to operating EBITDA ratio improved by 0.3 turns during the year. We did see a decline in the times interest cover ratio on a gross basis, from 7x in FY23 to 5.4x in FY24. However, adjusting for the effect of interest income from our own balances and the source account, we remain at comfortable levels, with an adjusted ratio of 18.8x, up from 15x in the previous year.

Slide 28

Slide 28 sets out the results of our Productivity Enhancement Program, which underpinned much of the improved performance during the year.

Overall, our work on improved operating model design, better ways of working in Technology, capacity release in the UK, and better non-labour expense disciplines has allowed us to generate cash (that is to say, opex and capex) savings with an annual run rate benefit of $16m. These have been used to fund investments in the business, and deal with head winds associated with FX, particularly in relation to opex.

Slide 29

In closing, our financial performance improved sharply over the year whilst we improved our strategic position. Given that I would like to turn to Slide 29. We have met the targets we set ourselves for FY24.

However, as Glenn will discuss, we remain focussed on delivering additional capital efficiencies in FY25, including finding appropriate capital lite mechanisms to support growth provided they create value for all shareholders.

Slide 30

I'll now pass over to Glenn who will provide some closing perspectives, including our views on the outlook for FY25.

Group Managing Director and Chief Executive Officer, Glenn King

Thanks Scott.

Slide 31

As illustrated on Slide 31 we believe the economy still has areas of weakness although we see growth slowly improving both here in Australia and in the UK.

For example, there are positive economic fundamentals in Australia including population growth, housing demand and specific government policies. Given this, we remain focused on sustainable growth and on the drivers of our business that we can manage.

Several of these items are outlined on the next Slide – Slide 32.

Slide 32

Our priorities for FY25 are all extensions of our strategy.

In Australia, we will continue to focus on increasing our Exchange national coverage and enhancing our service to meet the needs of our customers including greater product reach. We will support regulatory matters while developing innovative ways to meet our customer needs.

In the UK, we will continue to build out our international platform and deploy the S&P capability and integrate our Optima Legal, Smoove and PEXA service. We aim to progress the onboarding of lenders. This will be done against the backdrop of reducing our cash spend in the UK and improving the overall UK financial performance.

At the Group level, we will continue to build out capability that supports all areas of our business such as ensuring platform security and resilience across all markets, developing talent to grow our business, performance efficiencies and ensuring our capital finds its way to the most productive activities across the Group.

Slide 33

Turning to an update on the UK milestones.

This Slide summarises our roadmap in the UK and the streams of work underway during FY25.

Scott has already touched on the platform build over the next 6-9 months after which we expect to have sales and purchase (S&P) and material Remo capability in the UK market.

In tandem with the platform roll out is the onboarding of customers. This is not just the lender base, but also conveyancers.

Now turning to the outlook on Slide 34

Slide 34

Our FY25 guidance is covered on this Slide. I would like to highlight that, inclusive of Smoove, we expect:

- An increase in Group revenue of 13-19%.
- Group margin greater than 34% compared to 31% for the prior year.
- Net interest expense broadly aligned to this year experience; and
- Cash outflow in our international operations to fall to a range of $55m - $58m.
- Tax: The Group's effective tax rate is expected to remain elevated in FY25. This reflects the tax expense incurred in respect of our Australian operations, and our conservative approach to tax effecting losses in the UK. This view assumes that relevant tax laws and regulations, policy approaches as expressed in tax rulings and guidance notes, and our own business mix, taxation procedures and judgements remain consistent across periods.

Turning to Slide 35

Slide 35

In closing, we have:

- Made progress on our strategy and execution
- Improved our financial performance across our Group
- Remained focus on disciplined and sustainable growth

We have a clear focus on FY25 priorities and performance expectations to ensure we are well positioned for the future.

With that you would have seen my earlier announcement today of my intention to retire as Group MD & CEO of the PEXA Group by the end of FY25, after an incredible five years.

I have been extremely humbled and proud to lead this unique Australian-owned organisation … building on the legacy of the foundations we set back in 2010…. through the IPO in 2021, the entry into the UK, the continued national coverage of our secure property Exchange…. and diversifying our value proposition to our dedicated and loyal customers.

I look forward to continuing to lead the organisation to deliver on our strategy as we facilitate an orderly and smooth transition as part of the Group Board's succession planning framework.

I want to acknowledge the wonderful support I have received from the Chair Mark Joiner, our highly engaged and experienced directors and my colleagues on the Executive past and present including Scott. Importantly, thank you to our shareholders and our fantastic team who I have been proud to work with and who I will continue to work with over the coming year… we have a fantastic purpose which drives excellence in our collective pursuit to connect people to place.

With that, Scott and I are happy to take your questions.

-Ends-

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