

ASX Release 28 August 2020

Restructure delivers return to operating profit and positive operating cashflow, despite impact of COVID-19

WT Financial Group Limited (the Company or the Group) today announced that it has experienced continued growth through its successful restructure strategy with its Appendix 4E Preliminary Final Report released to the market showing a return to operating profit and positive operating cashflow. The results are in line with (slight improvement on) indicative results provided to the market on 4 August 2020.

Commenting on the results, managing director, Keith Cullen, said, "We are delighted to have been able to continue our growth and deliver such a significant turnaround in operating profit despite the economic headwinds of COVID-19".

He added, "We anticipate further and sustainable growth in revenue as we finalise our restructure program with our absolute focus being on capitalising on industry disruption created by the unravelling of institutional advice models which continues to provide a substantial expansion opportunity for our core B2B operations".

FY2020 Preliminary Results (unaudited)

Total Revenue & Other Income was up 20% to \$12.74M (FY2019 \$10.64M).

With B2B revenue up nearly 70% to \$8.37M (FY2019: \$4.96M), and recurring revenue up more than 30% to \$8.65M (FY2019 \$6.59M).

The Group's B2B success increased Direct Cost of Sales by 32% year-on-year to \$6.75M (FY2019 \$5.13M), in line with its strategic focus.

Total Operating Expenses (excluding depreciation, amortisation, interest and tax) were down 19% to \$4.88M (FY2019 \$6.04M), with further improvement anticipated.

Resulting in a more than 311% improvement in Operating Profit (EBITDA) to \$1.11M, as compared to an EBITDA loss of \$524k for FY2019, underscoring the success of the Group's transformational restructure.

Finance costs increased 6% to \$266k (FY2019 \$250k), while depreciation and amortisation increased 109% to \$871k (FY2019 \$417k) resulting in a normalised NPBT result of a small loss of \$29k, a 98% improvement over the prior year (FY2019 loss of \$1.19M).

After accounting for a one-off write-down of the sale price of the Group's internal SMSF administration operation (detailed below) the NPAT result was a loss of \$729k, a 22% improvement on the prior year (FY2019 loss of \$929k).

Positive Cashflow

Cashflow from operating activities was positive \$321k. The Company paid down borrowings by \$210k and net cash increased by \$396k with cash and cash equivalents being \$1.41M at 30 June 2020. The Company has subsequently further improved its cash position with a placement to a new institutional shareholder on 8 August 2020 providing an additional \$500k in cash.

Details of one-off write down impacting NPAT

In 2017, the Group sold its internal SMSF administration operations for a total consideration of \$1.695M (Sale Price). The sale agreement included a deferred consideration over time from the buyer. At the time, in accordance with AASB 15, the Group recognised a discounted amount of \$1.361M in other revenue to reflect a financing component relative to the deferred consideration.

The sale included an ongoing contractual obligation for the Group to outsource certain SMSF administration requirements of its Spring FG Accounting Pty Ltd subsidiary to the buyer for a period of not less than five-years, under a fixed price contract (SMSF Contract).

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The Group has finalised the restructuring of the SMSF Contract, with the following impacts:

The annual cost of services provided to the Group by the buyer under the SMSF Contract were reduced significantly, representing a total gain for the Group of \$1.24M across FY2020 to FY2022.

This comprised a \$452k reduction for FY2020; and a further \$396k pa for each of the remaining two-years of the contract term for a total future saving to the Group of \$792k that will be realised through the Company's profit & loss statements across FY2021 and FY2022.

In consideration of the restructured arrangements, the 2017 Sale Price has been reduced to \$913,000, resulting in an outstanding vendor financed component of \$789k having been written down to zero. This amount has been recorded in the Company's FY2020 accounts as a one-off write down, negatively impacting the Company's FY2020 NPAT by a net \$709k after accounting for the resulting tax benefit.

The net cash impact of restructuring the SMSF Contract (and adjusting the Sale Price) however will be positive \$451k across the three years to FY2022 and provides the Group with considerably increased flexibility with this B2C subsidiary, in furtherance of its restructure to a predominately B2B focused enterprise.

COVID-19 Impact Statement

As more fully detailed in the Company's COVID-19 Impact Statement released to market on 4 August 2020, the economic impact of the pandemic negatively impacted FY2020 EBITDA by an estimated net \$125k after accounting for contributions from government programs.

Group operations have been able to be readily adapted during the pandemic, with a mix of work-from-home and video conferencing solutions implemented that have enabled both B2C and B2B clients to continue to be served with limited interruption. The Group is well equipped from an operational and technological perspective to continue its operations should the impact of the pandemic continue.

In terms of outlook, whilst its growth trajectory has been impacted and will continue to be impacted by the pandemic, the Company anticipates continued growth at or around that experienced across FY2020, thanks in large part to ongoing industry disruption - as institutional licensees exit the market and advisers continue to seek non-aligned dealer groups to join.

Background to turnaround

Over the past two-and-a-half years the Group has undergone a transformational restructure to reduce its focus and reliance on business-to-consumer (B2C) and non-recurring revenue, to emerge as a primarily business-to-business (B2B) focused enterprise targeting predominately recurring revenue lines.

Central to its strategic transformation has been the acquisition of the Group's Wealth Today Pty Ltd (Wealth Today) subsidiary which provides a comprehensive range of "dealer group" services to financial advisers who are independent business operators acting as authorised representatives.

Concurrently the Group has rationalised its B2C financial advice and wealth management operations conducted under the Spring Financial Group banner, which has helped deliver significant cost reductions.

Audited financial statements

The Company's financial statements are in the process of being audited. The Company expects to release its audited financial statements on or around 25 September 2020. It does not anticipate any material variance from the unaudited results provided herein.

WT FINANCIAL GROUP LIMITED (ASX: WTL)

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About WT Financial Group Limited

WT Financial Group Limited is a diversified financial services group. Its advice and product offerings are delivered primarily through a group of independent financial advisers operating as authorised representatives under its Wealth Today Pty Ltd subsidiary.

The Group's B2C division delivers a range of services directly to wholesale and retail clients through the Spring Financial Group brand, encompassing financial planning, accounting & tax services, mortgage finance services, and investment and asset management.

The Group offers market-leading financial education and market information services for advisers and consumers through that includes the publication of its Wealthadviser library of more than 100 financial literacy eBooks on a broad range of financial an investment market topics.

Authorised for release by and for further information:

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