

2 May 2019

Attention: Company Announcements  
ASX Limited

## Business Update – Quarter ending 31 March 2019

Below is a summary of our unaudited consolidated accounts for the quarter ended 31 March 2019 with prior period comparisons to assist in understanding our underlying performance:

	<b>FY19 Q3</b>	<b>FY19 YTD</b>	<b>FY18 Q3</b>	<b>FY18 YTD</b>
	(Qtr end Mar2019)	(to Mar2019)	(Qtr end Mar2018)	(to Mar2018)
Commissions income - Fund Managers <sup>^</sup>	1,062,704	3,491,372	1,228,150	3,736,106
Commissions income - Insurance	415,311	1,357,038	461,130	1,435,320
Funds management fees	183,714	564,393	94,932	237,018
Subscription income	1,083,487	3,198,250	1,177,846	3,929,317
Other Income <sup>Ø</sup>	28,836	2,239	(19,691)	228,115
<b>Total Income</b>	<b>2,774,051</b>	<b>8,613,293</b>	<b>2,942,367</b>	<b>9,565,876</b>
Rebates paid	439,772	1,339,847	473,013	1,426,355
Employee costs	1,451,078	4,359,183	1,369,761	4,148,436
Marketing costs	202,570	1,353,937	506,635	1,061,622
Other expenses	673,621	2,083,685	545,066	1,746,912
<b>Total Operating Expenses</b>	<b>2,767,042</b>	<b>9,136,653</b>	<b>2,894,475</b>	<b>8,383,325</b>
<b>Operating Profit Before Tax, Amortisation and EBE</b>	<b>7,009</b>	<b>(523,360)</b>	<b>47,892</b>	<b>1,182,551</b>
<b>Cash at Bank (end of period)</b>	<b>3,633,529</b>	<b>3,633,529</b>	<b>5,384,881</b>	<b>5,384,881</b>

Quarterly results are prepared by management and are unaudited

<sup>^</sup>Includes commissions from Home Loans and General Insurance

<sup>Ø</sup> Other Income includes interest earned on cash-at-bank and gains on investments (excluding unrealised gains on ventures investments)

## Commentary on financial performance for HY2019

### **Commissions Income - Fund Managers**

The Financial Services Royal Commission issued its final report on 4 February 2019 recommending grandfathered trailing commissions be repealed as soon as is reasonably practicable. The government responded by agreeing to end grandfathered commissions from 1 January 2021. The government also stated that “payments of previously grandfathered trailing commissions still in contracts will be required to be rebated to clients from 1 January 2021.” The timing of the repealing of grandfathered commissions remains uncertain as does the mechanism for rebating of such commissions which remain in contracts. Higher client attrition rates were observed during the quarter as product providers rationalise offerings post the Royal Commission. Client attrition rates were partially offset by increases in the ASX All Ordinaries Index.

### **Commissions Income – Insurance**

The Financial Services Royal Commission recommended ASIC review the cap on insurance commissions in 2021. Commissions income from insurance was within management’s expectations for the quarter.

### Subscriptions

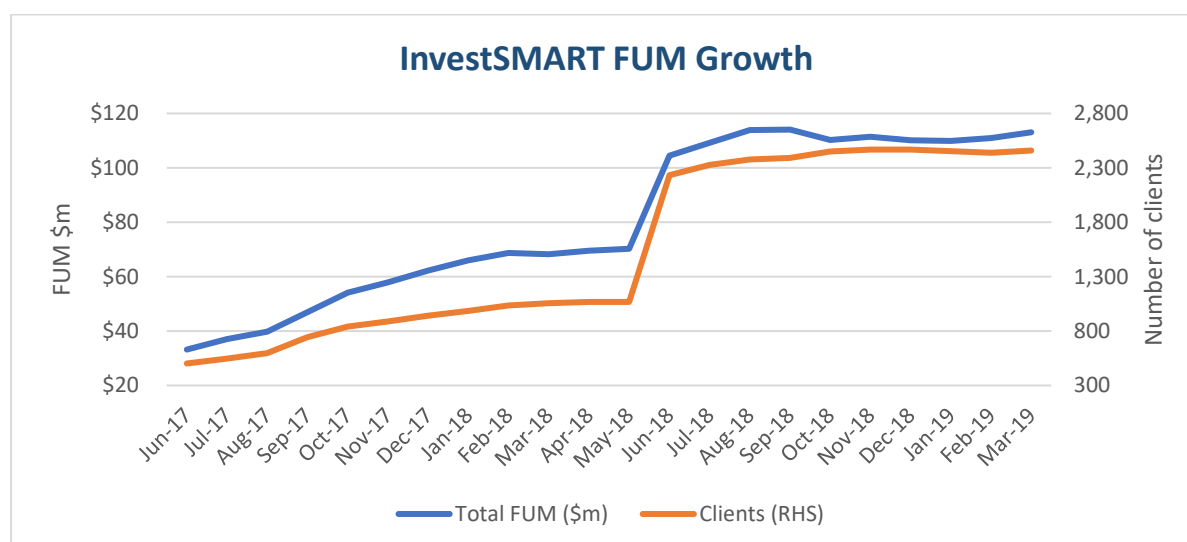
Lower subscription revenue compared to the prior comparative periods is due to the lower retention rates experienced during Q3 FY18 (subscribers did not renew annual subscriptions) and not converting our high traffic and engagement metrics to new paying subscribers. Since the acquisition of Alan Kohler's business on 4 December 2018, total subscribers have stabilised and retention rates in Eureka Report improved to 84%. Intelligent Investor retention rates remain at 90%.

### Funds Management Fees

Total funds under management (FUM) grew from \$110m at 31 December 2018 to \$113m at 31 March 2019. The Professionally Managed Accounts solution launched in November 2018 caps fees on ETF portfolios at \$451 including all administrative costs. Applications for the product increased over the quarter as marketing focussed on this product through digital communications and seminars.

InvestSMART will launch an additional listed fund, the InvestSMART Ethical Share Fund, during the June quarter.

The chart below shows growth in FUM and our funds management clients to March 2019:



### Costs

In line with rebranding InvestSMART, we chose to significantly increase marketing expenditure from December 2017, through an integrated digital and physical marketing campaign which peaked in Q1 and Q2 FY19. Marketing and other costs were selectively reduced in Q3 2019 to reduce costs and focus efforts on digital conversion. Employment costs increased marginally from previous corresponding periods through additional staff numbers acquired with Mr Kohler's business.

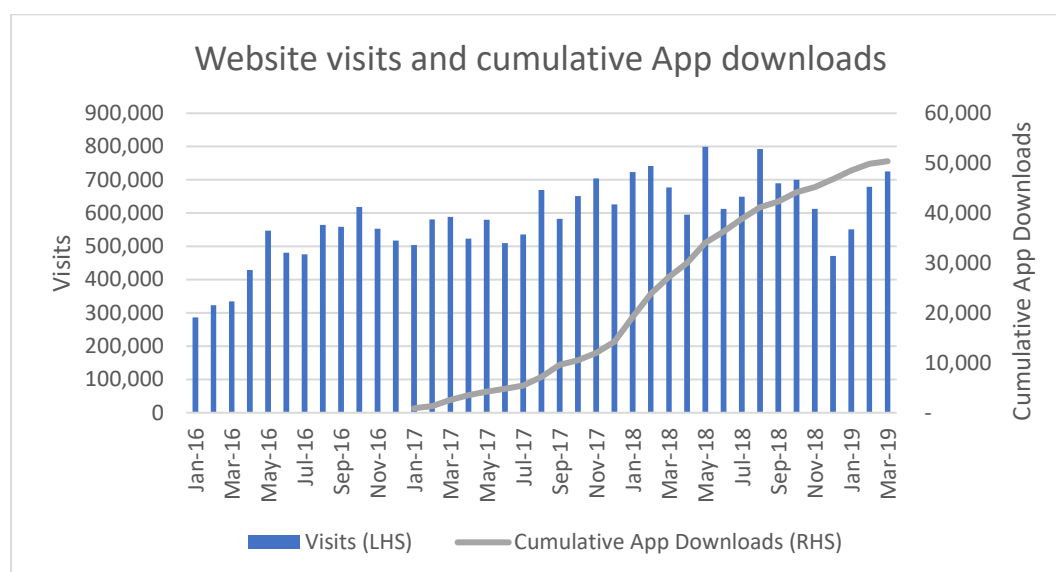
### The Term Deposit Shop

The Group launched a term deposit solution during the quarter to help members optimise their portfolios. See <https://www.investsmart.com.au/term-deposit>. InvestSMART members have cash holdings of \$2.7bn recorded in our portfolio manager. The Group has entered into an agreement to share 50% of revenue received on clients introduced by InvestSMART to TTDS.

## The future of financial advice is digital

InvestSMART remains at the forefront of digital advice in Australia catering to over 660,000 Australian investors looking for help in reaching their financial goals.

Our rebrand marketing campaign last year was successful in raising awareness and engagement with our services as can be seen in the graph below. However, investor sentiment was overshadowed by the Royal Commission and market downturn leading up to December 2018 making it more difficult to convert new traffic into clients.



Engagement with the InvestSMART free portfolio manager continues to drive our automated investment advice services, filter content and deliver improvements in members' portfolio construction. Assets managed in the portfolio manager continue to grow providing opportunities to deliver investment products and services to help our members reach their financial goals.

	Total Active Free Database	Total Member Portfolios	Value of Shares (\$bn)	Value of Funds (\$bn)	Value of Property (\$bn)	Value of Cash (\$bn)
Jun-16	546,980	63,014	\$5.13	\$1.49	\$4.74	\$1.25
Jun-17	586,309	88,892	\$8.77	\$1.96	\$7.49	\$1.87
Jun-18	637,024	109,472	\$11.88	\$2.53	\$9.63	\$2.42
Sep-18	651,482	111,149	\$11.50	\$2.54	\$9.97	\$2.50
Dec-18	675,616	114,717	\$11.60	\$2.53	\$10.30	\$2.57
Mar-19	683,814	117,046	\$12.94	\$2.79	\$8.54	\$2.67

InvestSMART remains focused on building awareness of its services through digital advertising, search engine optimisation and media coverage through key spokespeople such as Paul Clitheroe and Alan Kohler. With over 20 years experience in dealing directly with small balance retail clients, we know that awareness builds trust and engagement, which leads to conversion into paying customers.

For further information or comment, please contact Paul Clitheroe, Chairman, or Ron Hodge, Managing Director and CEO, at InvestSMART Group on 02 8305 6000.