

28 February 2019

 Attention: Company Announcements  
 ASX Limited

## Reviewed Financial Results for H1 FY2019 (extract)

Below is a summary of our reviewed consolidated accounts for H1 FY2019 with prior period comparisons to assist in understanding our underlying performance:

	<b>FY19 Q2</b>	<b>FY19 HY</b>	<b>FY18 Q2</b>	<b>FY18 HY</b>
	(Qtr end Dec 2018)	(to Dec 2018)	(Qtr end Dec 2017)	(to Dec 2017)
Commissions income - Fund Managers <sup>^</sup>	1,135,966	2,428,668	1,207,908	2,507,956
Commissions income - Insurance	480,148	941,727	495,734	974,190
Funds management fees	188,578	380,679	79,254	142,086
Subscription income	1,018,959	2,114,764	1,258,188	2,751,470
Other Income <sup>Ø</sup>	(42,498)	(20,710)	141,211	247,805
<b>Total Income</b>	<b>2,781,153</b>	<b>5,845,129</b>	<b>3,182,295</b>	<b>6,623,508</b>
Rebates paid	445,160	936,436	447,723	953,342
Employee costs	1,443,781	2,908,104	1,398,586	2,778,675
Marketing costs	461,250	1,151,368	259,286	554,987
Other expenses	657,112	1,343,868	609,142	1,201,846
<b>Total Operating Expenses</b>	<b>3,007,302</b>	<b>6,339,776</b>	<b>2,714,737</b>	<b>5,488,850</b>
<b>Operating Profit Before Tax, Amortisation and EBE</b>	<b>(226,149)</b>	<b>(494,647)</b>	<b>467,558</b>	<b>1,134,658</b>
Unrealised gain/(loss) on ventures investments		10,950		378,396
Employee benefit expense		(64,178)		(169,768)
Amortisation of intangibles		(725,081)		(683,330)
Tax benefit/(expense)		298,783		(35,254)
<b>Reported NPAT</b>		<b>(974,173)</b>		<b>624,702</b>
<b>Cash at Bank (end of period)</b>	<b>3,536,794</b>	<b>3,536,794</b>	<b>5,302,168</b>	<b>5,302,168</b>

Half year results are reviewed. 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

Commissions income was within management's expectation after taking into consideration market movements (the All Ordinaries Index declined by 9.8% over the quarter) and expected attrition rates. Subsequent to the quarter end 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Services Royal Commission issued its final report on 4 February 2019 recommending grandfathered trailing commissions be repealed as soon as is reasonably practicable.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."

### Commissions Income – Insurance

Commissions income from insurance was within management's expectation. The Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016 commenced on 1 January 2018,

primarily addressing high upfront fees. The Group's insurance commissions are unaffected by this bill as the majority of commissions are derived from trailing commissions and new policies are written on a hybrid model. The Financial Services Royal Commission recommended ASIC review the cap on commissions in 2021.

### **Subscriptions**

Prior to purchasing the business in May 2016, Eureka Report subscription numbers were in sharp decline. Over the past 24 months we have been able to improve monthly retention rates from 48% to 80%. Lower subscription revenue compared to the prior comparative periods is due to the lower retention rates experienced during HY FY18 (subscribers did not renew annual subscriptions) and not converting our high traffic and engagement metrics to new paying subscribers. InvestSMART Group acquired Alan Kohler's subscription business, The Constant Investor ("TCI") on 4 December 2018. TCI revenue has been included since that date.

Intelligent Investor retention rates remain high at around 90%.

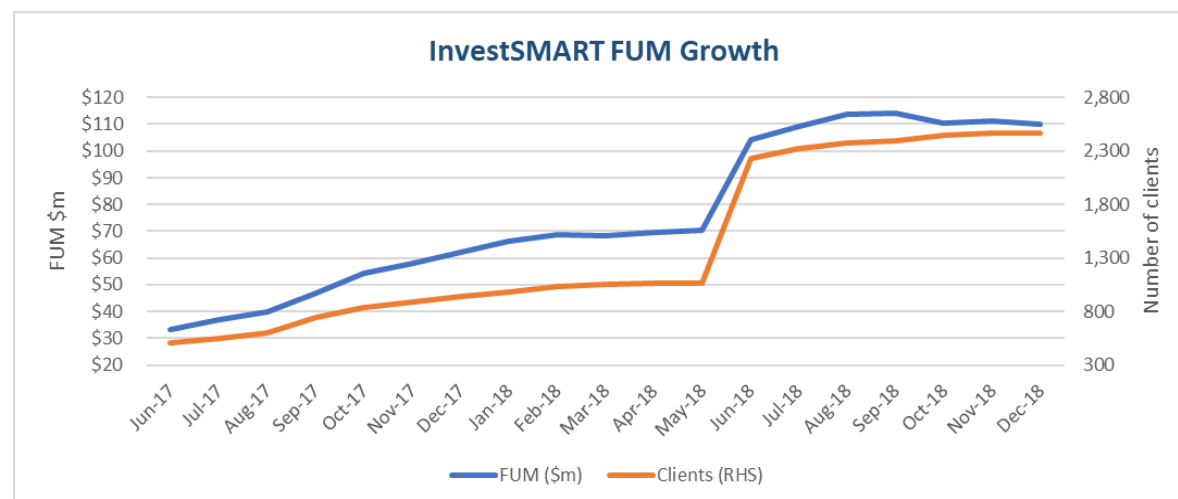
### **Funds Management Fees**

Total funds under management (FUM) grew from \$104.4m at 30 June 2018 to \$110.1m at 31 December 2018 despite the All Ordinaries Index declining by 9.3% over this period.

InvestSMART became the first fund manager to cap fees in Australia when it launched Professionally Managed Accounts in November 2018 for ETF portfolios. Fees start at \$99 per annum (up to \$18,000) and are capped at \$451 including all administrative costs. This is not expected to have any material effect on existing fund revenues as investors switch to a lower cost product.

Subject to market conditions, InvestSMART anticipates issuing additional funds, including further ETMFs, over the course of FY19.

The chart below shows growth in FUM and our funds management clients to December 2018:



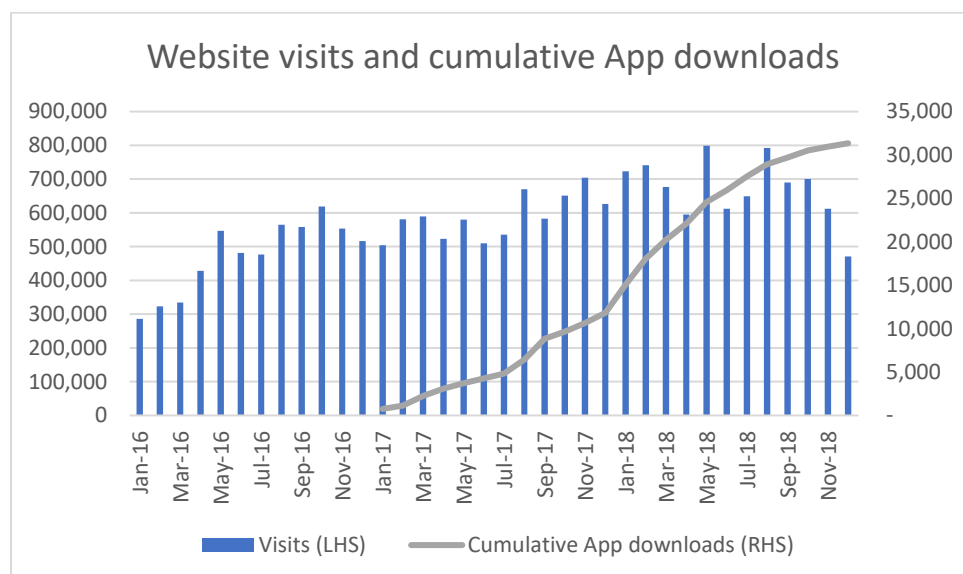
### **Costs**

The Group has recently implemented selective cost saving measures. The effect of these measures will lower reported costs for H2 FY19.

## Awareness, engagement and conversion

### Marketing costs

We chose to significantly increase marketing expenditure from December 2017, through an integrated digital and physical marketing campaign including awareness of our new InvestSMART brand to travellers within airline lounges, plus wider digital advertising and engagement through radio. This resulted in a large increase in awareness and new downloads of our free portfolio manager and general wealth advice for our mobile application and desktop platform, as shown below.



Whilst traffic and engagement increased we are disappointed with the conversion rates to new paying clients. Combined with deteriorating market conditions and possible legislative changes affecting trailing commission, marketing expenditure will be reduced in H2 FY19, focussing on converting existing members using tactical digital communication.

	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

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