

17 February 2021

ASX ANNOUNCEMENT

Moelis Australia Announces 2020 Full Year Financial Result

Moelis Australia Ltd (Moelis Australia; ASX: MOE) is pleased to present its financial results for the year to 31 December 2020 (FY20). Key FY20 highlights include:

- **Underlying EBITDA down 5% to \$60.5 million, reflecting COVID-19 impacts**
- **Asset Management revenue up 10%, supported by 11% growth in AUM to \$5.4 billion**
- **Corporate Advisory & Equities revenue down 14%, due to COVID-19 disruption and transaction completion timing**
- **Underlying earnings per share of 25.1 cents, down 5% on FY19**
- **Statutory earnings per share of 18.5 cents, up 19% on FY19**
- **Strong balance sheet maintained with \$112 million operating cash¹ plus \$200 million in investment assets**
- **Fully franked dividend unchanged from FY19 at 10 cents per share**
- **Strong momentum into FY21; Underlying EPS expected to be up 10% to 20% on FY20**

Moelis Australia today announced a FY20 result underpinned by accelerating activity and momentum in the Group's Asset Management business during 2H20. The Corporate Advisory & Equities business maintained good transaction volumes, however FY20 revenue was impacted by completion timing of large restructuring mandates and reduced M&A activity. The business has emerged from a period of difficult economic and market conditions, resulting from the COVID-19 global pandemic, with a strong platform for growth.

Underlying revenue of \$160.1 million proved resilient, up 1% on the FY19 result of \$158.3 million. COVID-19 had a significant impact on business conditions during the year, particularly on hospitality and aged care assets managed by MA Asset Management (MAAM). Management acted with caution in limiting new business activity in 1H20 as COVID-19 impacts were assessed. This positioned the business well for a strong rebound as business certainty returned over 2H20, characterised by new fund launches, asset acquisitions and increased fund inflows.

¹ Adjusted to reflect the total economic exposure of the Group by removing the consolidation of a Moelis Australia managed credit fund. Refer to page 41 of the FY20 Investor Presentation for a reconciliation of Statutory to Operating Balance Sheet.

Underlying EBITDA was down 5% to \$60.5 million on FY19 due to a 5% increase in expenses arising from investment in platform capabilities largely undertaken in FY19 and one-off costs of approximately \$3.0 million associated with the impacts of COVID-19. The decision to preserve these investments through a period of significant uncertainty positions the business well for growth in FY21.

Joint CEOs Julian Biggins and Chris Wyke said:

“We are proud of the commitment, resolve and hard work our team has shown to meet the significant challenges of 2020 and deliver a very solid result.”

“The operating performance of the business strengthened appreciably as the year progressed and this momentum has been carried into a strong start to 2021.”

“Going forward our strategy remains unchanged as we continue to look to scale our investment strategies, expand our distribution channels and leverage our specialised capabilities in corporate advisory and equities.”

“We are optimistic about the momentum across the business and confident about how we are positioned to deliver on our purpose of building long term value.”

Key Financial Tables

Underlying Results ²	FY20	FY19	Growth	Statutory Results ²	FY20	FY19	Growth
Revenue	\$160.1m	\$158.3m	1.1%	Revenue ³	\$161.1m	\$153.7m	4.8%
EBITDA	\$60.5m	\$63.5m	(4.7)%	EBITDA ⁴	\$61.4m	\$52.0m	18.0%
Net profit after tax	\$36.0m	\$40.2m	(10.4)%	Net profit after tax	\$26.5m	\$23.5m	12.7%
Earnings per share	25.1¢	26.5¢	(5.3)%	Earnings per share	18.5¢	15.5¢	19.4%
Return on equity	15.5%	17.2%		Dividend per share	10.0¢	10.0¢	-

² Refer to the Directors' Report and note 3 of Moelis Australia's 2020 Annual Report for descriptions and reconciliations of these measures.

³ Statutory Revenue refers to total income on the consolidated statement of profit or loss and other comprehensive income

⁴ Statutory EBITDA is not a recognised IFRS measure but has been presented to give a comparable measure to the Underlying Result

Performance Review of Business Activities

MA Asset Management (MAAM)

The Asset Management division contributed approximately 84% of Moelis Australia's Underlying EBITDA before corporate overheads in FY20. This result was derived from Underlying revenue of \$106.8 million, up 10% from \$96.7 million in FY19.

Recurring revenue increased 3% on FY19, supported by a 4% increase in base management fees to \$54.0 million. Assets under Management (AUM) grew by \$0.5 billion over the year to \$5.4 billion as at 31 December 2020. The majority of the growth was in 2H20 (up \$0.4 billion) as net fund inflows materially accelerated as the year progressed.

Net client inflows were \$270 million in 2H20, up on \$160 million in the 1H20. 2H20 flows included:

- \$400 million net inflows from foreign and domestic high net worth (HNW) clients (1H20: \$150 million), offset by;
- \$130 million net institutional outflows from the successful completion of construction finance partnership loans.

Recurring revenue growth was impacted by an \$8.1 million reduction in base management fees and distributions from assets and investments directly impacted by COVID-19. These were largely in the hospitality and aged care sectors.

Transaction-based revenue was up 26% on FY19 to \$27.0 million. This was driven by a 44% increase in performance fees derived from the Group's hospitality assets, equity fund strategies and successful venture capital fund asset realisations.

Performance fees were heavily weighted to 2H20, benefiting from the improved operating environment. Given the diversity of Moelis Australia's AUM and investments, performance fees are anticipated to be a strong contributor to the Group's ongoing revenue but will vary from period to period.

Underlying EBITDA was up 8% on FY19 to \$60.0 million, reflecting Underlying revenue growth offset by a 14% increase in expenses. Expense growth was largely due to investment in platform growth undertaken in FY19 and one-off expenses related to COVID-19.

BUSINESS HIGHLIGHTS

Hospitality – MA Hotel Management (MAHM)

The Group's hospitality venues exhibited strong trading performance since the lifting of COVID-19 related venue closures in 1H20. The rebound in activity levels highlights the defensive nature of the assets and the potential of the Group's hospitality platform. Key highlights were:

- MAHM managed Redcape Hotel Group (RDC) reported a 25% increase in distributable earnings for the half year to 31 December 2020 relative to the prior corresponding period;
- RDC delivered a \$5.8 million performance fee to MAHM reflecting its strong operating performance and a valuation uplift of \$63.5 million⁵ for 12 venues independently valued at 31 December 2020. Valuation changes broadly reflects an equal spread between earnings growth and tightening cap rates;
- Established the \$70 million MA Taylor Square Fund to acquire Courthouse and Kinselas Hotels in Sydney's Taylor Square⁶ due to settle in February 2021;
- RDC contracted to acquire four new hotels in NSW and Queensland in 4Q20 worth \$96 million. All transactions are scheduled to settle in 1H21; and
- Hotel acquisitions contracted in 4Q20, and settling in 1H21, increase proforma Hospitality AUM by 12.5% to \$1.5 billion.

Credit and Lending

The Group continued to expand its credit platform and grow its lending activities in FY20. Credit AUM grew 23% in the year to over \$1.1 billion, despite \$130 million of institutional outflows in 2H20 from the successful completion of construction finance partnership loans. The business is seeking new construction finance opportunities in FY21.

All credit strategies continued to deliver consistent performance through FY20, with no material impairments across the portfolio reflective of the Group's conservative underwriting standards.

Furthermore, the Group completed the 47.5% first stage of its acquisition of MKM Capital in October 2020 which will provide a platform to grow the Group's lending strategy for the residential mortgage market.

⁵ Excludes growth capex of \$8.2 million.

⁶ Combined acquisition price of \$67 million.

Real Estate

The MA Prime Logistics Fund was established in 2H20 to invest in high quality industrial and logistics real estate assets and successfully settled its first asset, a \$63 million cold storage facility, in December 2020. Post balance date the fund acquired its second asset for \$10 million and further opportunities exist to add to the Logistics asset portfolio in 1H21.

MAAM managed retail shopping centres were impacted in 1H20 due to many discretionary retailers being forced to close in accordance with government directives and poor trading conditions. Over 2H20 foot traffic and portfolio centre sales trended back to pre-COVID-19 levels, with sales across most centres ahead of the prior year in November and December. Distributions on all funds were reinstated for the September quarter after being suspended in 1H20.

Equities, Private Equity & Venture Capital

Equities funds management significantly increased its scale and earnings contribution in FY20, growing AUM by \$170 million to \$470 million over the year. In August 2020, the business launched a new absolute return fund, the MA Equity Opportunities Fund, which returned 12.8% over the four months to 31 December.

AUM in Private Equity & Venture Capital Funds increased by \$40 million to \$275 million. The business' first venture capital fund realised two assets in FY20 with a blended gross money multiple of 2.7x and an IRR of 36% per annum for investors. The business delivered \$1.7 million in performance fees from asset realisations in 2H20 and it is anticipated this will become a more regular contributor to earnings in future periods.

The MA Real Asset Opportunities Fund was launched in October 2020 to target operating asset-backed investment opportunities impacted by dislocation arising from COVID-19.

Distribution capabilities

The Group has been focused on expanding and diversifying its distribution, while leveraging its existing strengths. During FY20, the business invested significantly in distribution capabilities, through:

- the establishment of a retail distribution capability, extending existing independent financial adviser networks ahead of the launch of the Group's initial retail credit fund offerings in 1H21;
- the appointment of a dedicated resource to increase international institutional reach; and
- the establishment of a presence in Hong Kong to extend the breadth of foreign HNW relationships.

In December 2020, the Federal Government reaffirmed its support for the Significant Investor Visa (SIV) program, announcing it would be one of four visa streams in its simplified business and investment visa program. The program will receive increased resourcing for priority processing and the allocated number of total visas under the program has already been significantly increased.

Fund inflows from foreign HNW investors both within and outside the SIV program continues to grow, with a significant acceleration in net flows in 2H20. The majority of MA Asset Management's foreign HNW client flows are from mainland China, however increasing interest is being seen from other jurisdictions. In FY20, over 25% of new SIV applicants were from Hong Kong and strong interest has also been seen from South Africa.

Corporate Advisory & Equities (CA&E)

FY20 Underlying revenue for CA&E was down 14% on FY19 to \$53.4 million. This was primarily driven by a weaker transaction environment relative to FY19, particularly for M&A activity, and the timing of large transaction completions. Equities commissions in FY20 were 3% higher than FY19 largely due to a significant increase in market volatility and volumes during March and April.

Corporate Advisory fees were down 16% to \$44.2 million, as FY20 didn't exhibit the weighing of Corporate Advisory fees to the second half similar to that experienced in previous years. This was due to:

- reduced M&A activity in 2H20, following a good start to the year pre-COVID-19;
- a pipeline weighting during the year to restructuring mandates which have longer lead times;
- a record 1H20 contribution, which benefited from elevated ECM and large M&A transactions commenced in 2H19; and
- ECM activity was strong over the year but was characterised by smaller transactions. The business raised over \$1.4 billion for clients across 19 transactions⁷ in FY20, compared to \$2.7 billion across 20 transactions in FY19.

Advisory revenue per executive for FY20 was \$1.0 million, which was below the business's target productivity range of \$1.1 to \$1.3 million. Management has maintained its target productivity range in FY21 as the existing transaction pipeline and more supportive operating environment provides encouragement that it is achievable.

⁷ Including acting as a Financial Advisor.

Balance sheet and capital management

As at 31 December 2020, the Group had Net Assets of \$237 million, including \$112 million of operating cash. The Group's average FY20 operating cash balance was \$132 million (FY19: \$110 million) due to prudent COVID-19 related positioning.

Group cash reduced in 2H20 as MOE Bond I was redeemed and capital allocations returned to growth investing. Growth in investments was predominantly attributable to the first stage acquisition of MKM Capital, continued co-investment in credit funds and the short-term seed funding and underwriting of new strategies such as the MA Prime Logistics Fund.

During the year the Group successfully refinanced \$32 million of maturing borrowings and in so doing extended the tenor of its debt profile. This was achieved through the issue of a new unsecured note, MOE Bond IV, raising \$40 million with a maturity date of September 2024. MOE Bond IV was issued in May, well ahead of the existing bond which matured in September. This resulted in an elevated FY20 net interest expense, reflective of management's conservative approach to managing COVID-19 related uncertainty.

The Group's current cash balance is indicative of a consistent approach in managing the business for the long term and management will remain patient and prudent when deploying capital. Fundamental to this is maintaining a strong balance sheet, which not only stands the business in good stead through economic shocks but can also facilitate attractive investment or business opportunities.

Post balance date activity

The strong momentum the business carried into the end of FY20 has been carried into the first six weeks of FY21. Over this period the business has:

- received net fund inflows and commitments of approximately \$150 million, with strong inflows from both domestic and foreign HNW clients
- largely completed Corporate Advisory work that is expected to deliver \$11 million of fees in 1H21
- settled on three of six 4Q20 announced hotel acquisitions, with remaining settlements to occur in 1H21 adding over \$165 million of AUM to the Group's hospitality platform

In addition, the business has delivered on some key strategic initiatives that will assist in driving growth across our Credit & Lending and Real Estate platforms.

Bank Credit Related Partnership

On 8 February 2021, Moelis Australia entered into a credit related partnership with a major Australian bank. The partnership initially involves an investment in a \$300 million loan portfolio which consists of over 6,000 asset finance loans. All loans are fully performing, backed by SME borrowers that are regarded as prime credit counterparties.

Moelis Australia's investment in the portfolio is \$24 million. \$18 million will be sourced from the MA Fixed Income Fund, in addition to a \$6 million co-investment by Moelis Australia. The balance of the funding for the loan portfolio is to be provided via a non-recourse loan facility.

The intention is to grow the partnership with the bank over time and should represent a significant pipeline of quality loan assets.

Acquisition of RetPro Group, specialists in retail property services

On 16 February 2021, Moelis Australia agreed to acquire retail property services group RetPro for an initial cash consideration of \$10.5 million⁸. RetPro provides operational expertise across every aspect of retail shopping centre management, enhancing the Group's ability to take advantage of strategic opportunities in retail and deliver strong returns to third party investors.

Moelis Australia sees emerging strategic opportunities in retail real estate and remains of the view that well located shopping centres anchored by non-discretionary retailers will continue to be important community hubs in their catchment area.

Outlook

Given the strong start to the year and a number of factors outlined below, management expects that FY21 Underlying EPS will increase between 10% and 20% on FY20.

In providing this outlook, additional factors considered were:

- base management fee run rate at the end of FY21 was equivalent to \$60m per annum
- a strong pipeline of expected fund inflows from foreign HNW clients and retail product launch in 1H21
- Corporate Advisory pipeline is supportive of productivity target of \$1.1m to \$1.3m revenue per executive

⁸ An additional deferred consideration is payable in a combination of cash and shares up to a maximum of \$6.8 million dependent on achieving increased revenue hurdles up to 30 June 2022.

- Lending business activity continues to grow; and
- the Group's strong cash position provides strategic flexibility to fund new growth initiatives.

This outlook is subject to market conditions, no material change to current COVID-19 related restrictions, timing of Corporate Advisory transaction completions and no material regulatory change.

A conference call for analysts and investors will be held at 2pm today with Joint CEOs, Chris Wyke and Julian Biggins, and CFO, Graham Lello. You can access the webcast of the event by [clicking here](#).

Other Matters

Staff, Board and Joint CEO Remuneration

Moelis Australia previously announced a temporary reduction to fixed compensation of up to 25% for staff including its Board Members and Joint CEOs over the period 1 April to 1 July 2020⁹ (Temporary Salary Reduction). A decision has been taken by the Board to repay the Temporary Salary Reduction to all impacted staff inclusive of Board Members and Joint CEOs.

Moelis Australia Employee Share Plan (ESP)

The Board has resolved for the ESP to purchase¹⁰ up to 1,200,000 Moelis Australia shares to satisfy the ESP requirements relating to the retained equity component of staff bonus arrangements. The buying period for the ESP will commence 18 February 2021 and is expected to be completed by 17 March 2021¹¹.

The ESP intends to make an offer to acquire Moelis Australia shares off-market from Moelis Australia staff that are not subject to vesting or escrow conditions. These shares will be acquired off-market at the 3-day volume weighted average price (VWAP)¹² on 26 February 2021.

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⁹ Refer to ASX Release "COVID-19 Market Update" dated 3 April 2020 and Joint CEOs and Board Compensation dated 1 July 2020.

¹⁰ Shares may be purchased on-market and off-market including from staff.

¹¹ Actual buying may be completed sooner. A market announcement will be made confirming acquisition of shares for the ESP.

¹² Trades will be crossed off-market by Moelis Australia Securities Pty Ltd and reported to ASX and Chi-X accordingly.

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