

Axos Financial to Acquire COR Clearing LLC

October 2018



Safe Harbor

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COR Clearing Overview

Overview

- Top 10 Clearing Firm in the U.S: more than 60 introducing broker dealer firms (IBDs) with 2,000+ individual brokers and 90,000+ client accounts
- Deposits: approximately \$470 million
- Cost of Funds: ~1 basis point
- Headquartered in Omaha, Nebraska

Key Services

- Independent full-service clearing firm: clearing and trade execution for domestic and foreign securities, margin lending, securities lending, fixed income trading and IRA custody
- Supports straight through processing of equities, options, mutual funds and fixed income products
- Fully automated back office staffed with responsive professionals
- Offers responsive and customizable technology platform to allow correspondents to focus on growing their businesses

Key Competitive Advantages

- Diversified fee income stream with multiple upside opportunities
- High service levels and comprehensive service offerings dedicated to introducing broker dealers (IBDs) and RIAs
- Open architecture technology platform provides flexible client front-end and easy integration into back-end trading and custody systems
- Vendor contracts provide scalability
- Supports all leading order management and execution systems

COR Clearing Transaction Summary

Transaction Structure

- Axos Financial to acquire 100% of COR Securities Holdings, Inc.
- Estimated \$85 million enterprise value, assumes closing in Q4 of fiscal 2019, purchase price of \$76 million and debt payments of \$9 million.
- Sufficient cash at Axos Financial Inc. today to fund \$85 million of purchase price and debt payments.

Financial Impact

- Accretive to Axos EPS by 6% in Year 1* and 7% in Year 2*
- 3 year tangible book value earn-back*
- Improves Axos cost of funds by 16 basis points (see page 8)
- One-time costs total approx. \$0.04/ share, spread Q1 to Close FY 2019

Closing Timeline

- 1H Calendar 2019
- FINRA approval and other customary closing conditions

* - Years 1, 2 and 3 are fiscal years ended June 30, 2020, 2021 and 2022 respectively. Assumes that the Fed Funds rate grows to approximately 3.5% by June 30, 2022 and a 10% annual growth in Cor Clearing other businesses. Assumes average deposits at Axos Bank grow to average balance of \$406, \$451 and \$506 million for years 1, 2 and 3.

Strategic Benefits of COR Acquisition

Increases and Diversifies Fee Revenue

- ~ \$35 million of annual fee income (excluding net interest income on margin lending, stock borrowing, deposit funding)
- Axos fee income contribution increases from 16% to 22% of net interest income and non-interest income

Scale Entry Into Wealth Management Through Technology-Driven Platform

- Large addressable RIA custody market (~\$4 trillion+) with opportunity to take share from larger, less nimble competitors
- Turnkey technology platform provides infrastructure to enter robo-advisory and independent RIA markets

Significant Bank Product Synergies

- Incremental opportunities to upsell banking products to 60+ IBDs & 90,000+ accounts
- Additional high-margin fee income from growing margin and securities-based lending opportunities

Strategic Benefits of COR Acquisition (continued)

Acquire Strong Base of Low-Cost Core Deposits

- Acquire at closing approximately \$470 million of deposits at essentially zero cost (~1 bp)
- Average introducing BD contract term is approximately 4 years
- Pro forma core deposits increases to 83% of total deposits
- Strong account diversity (~90,000 individual accounts)

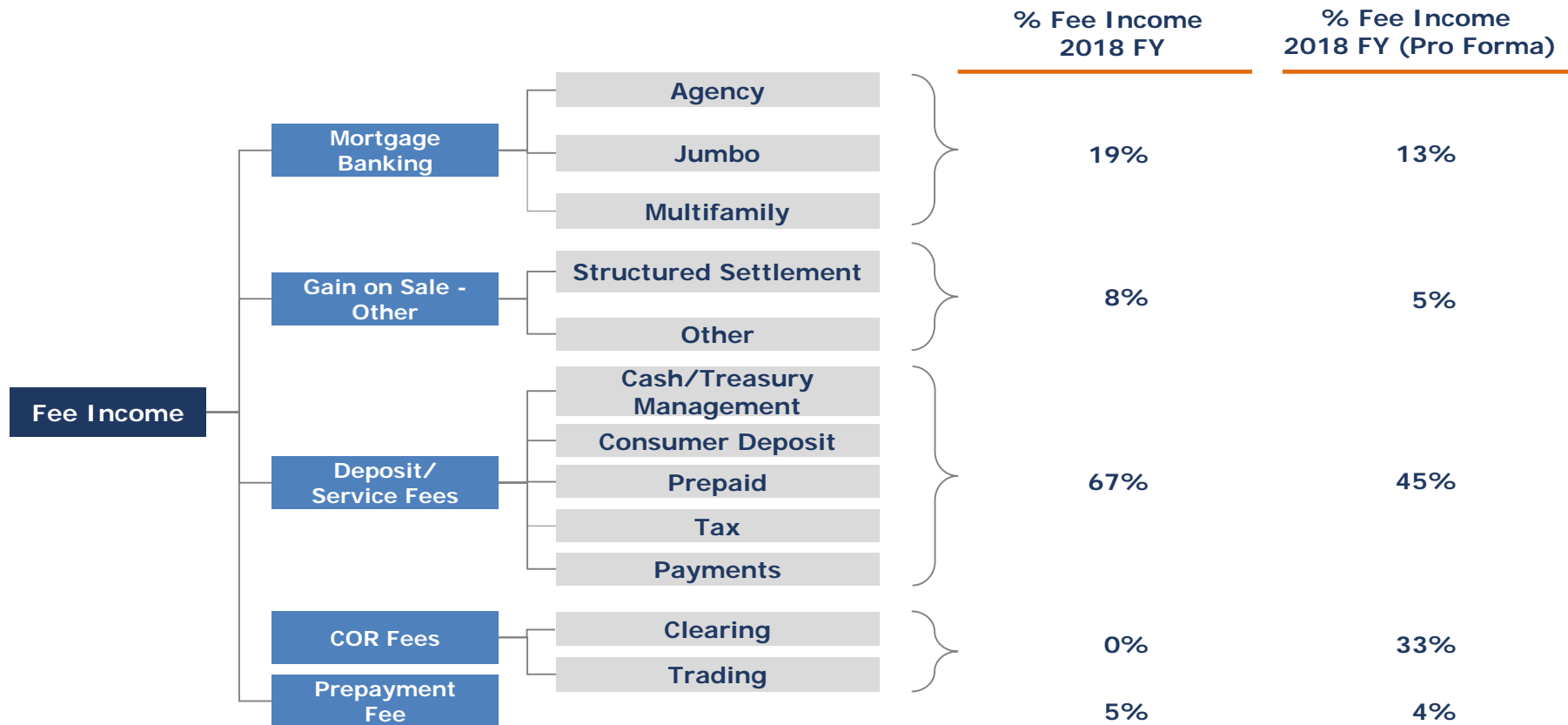
Opportunities to Accelerate Fee Income & Deposit Growth

- Take market share from larger, less nimble players
- Expand active trading, fully paid lending & RIA businesses
- New client pipeline of over \$5 million annualized revenues

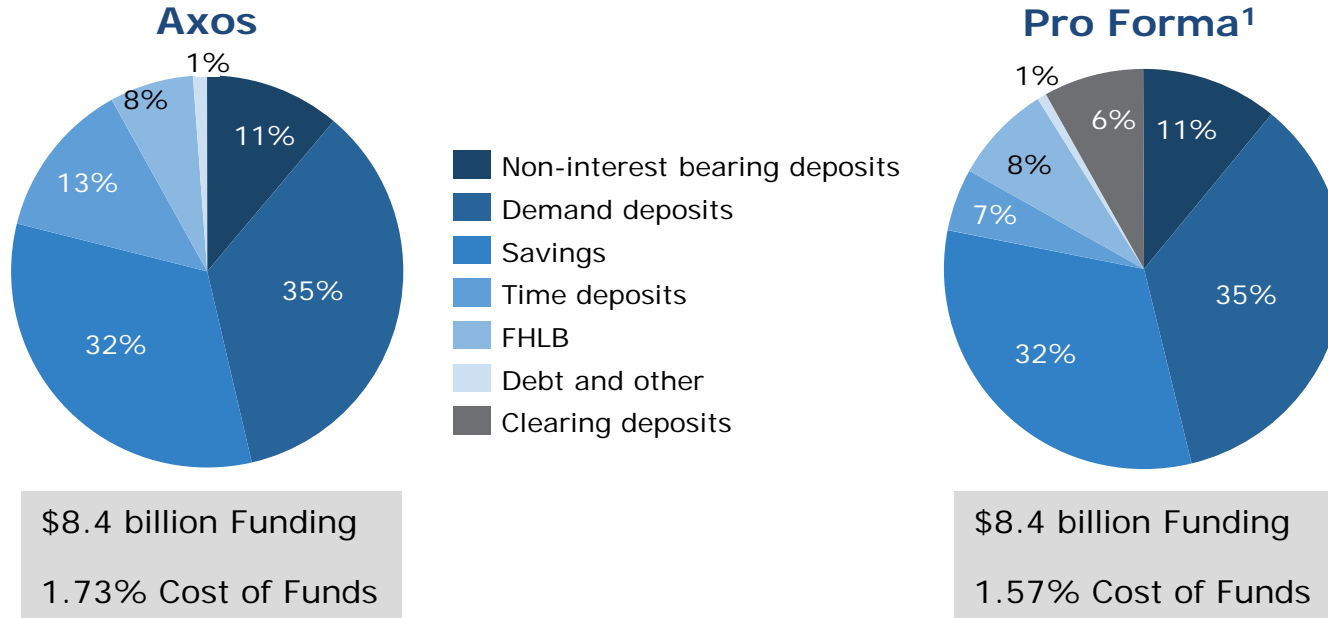
Embedded Margin Expansion

- Current business not run to maximize growth potential given capital constraints
- Value of low-cost deposits increases with future Fed rate increases

COR Clearing Diversifies and Expands Fee Income



COR Deposit Balances Improves Axos Bank's Cost of Funds⁽¹⁾



1. Assumes that during the quarter ended 6/30/18 100% of COR's deposits of \$470 million are used to replace Axos Bank's highest cost of deposit funding, time deposits.

COR Clearing Financials

\$ Million

	FY 2018 ¹
Fee Income	\$34.7
Sweep Interest	2.6
Margin Lending and Other Net Interest	9.4
Total Revenues	\$46.7
Operating Exp ²	\$32.5
Pretax Income	\$14.2
Income Tax Expense (27%)	3.8
Net Income	\$10.4
Total Price ³	\$85.0
P/E Paid for COR Clearing	8.2x

1. 6/30 Fiscal Year End

2. Excluding non-recurring legal and related regulatory costs

3. Estimated enterprise value for Q4 2019 close. Actual price will depend on working capital and other adjustments.

COR Clearing Provides Critical Services for Independent Broker Dealers & Registered Investment Advisors

Revenue Sources

Core Services



Clearing / Execution & Custody Services

Verification of information between two brokers in a securities transaction; subsequent settlement in exchange for payment

Statement and confirm fees, transfer fees and other miscellaneous charges

Customer Assets / Liabilities



Margin Lending

Extension of credit to correspondents and their customers so that they may purchase securities on Regulation T margin

Securities Lending

Lending proprietary and conduit securities

Sweep and Reserve Interest

Interest income generated from over \$470 million in customer cash balance accounts

Complementary Services



High Touch Middle Market Focused Service

Company strongly focused on middle market clients

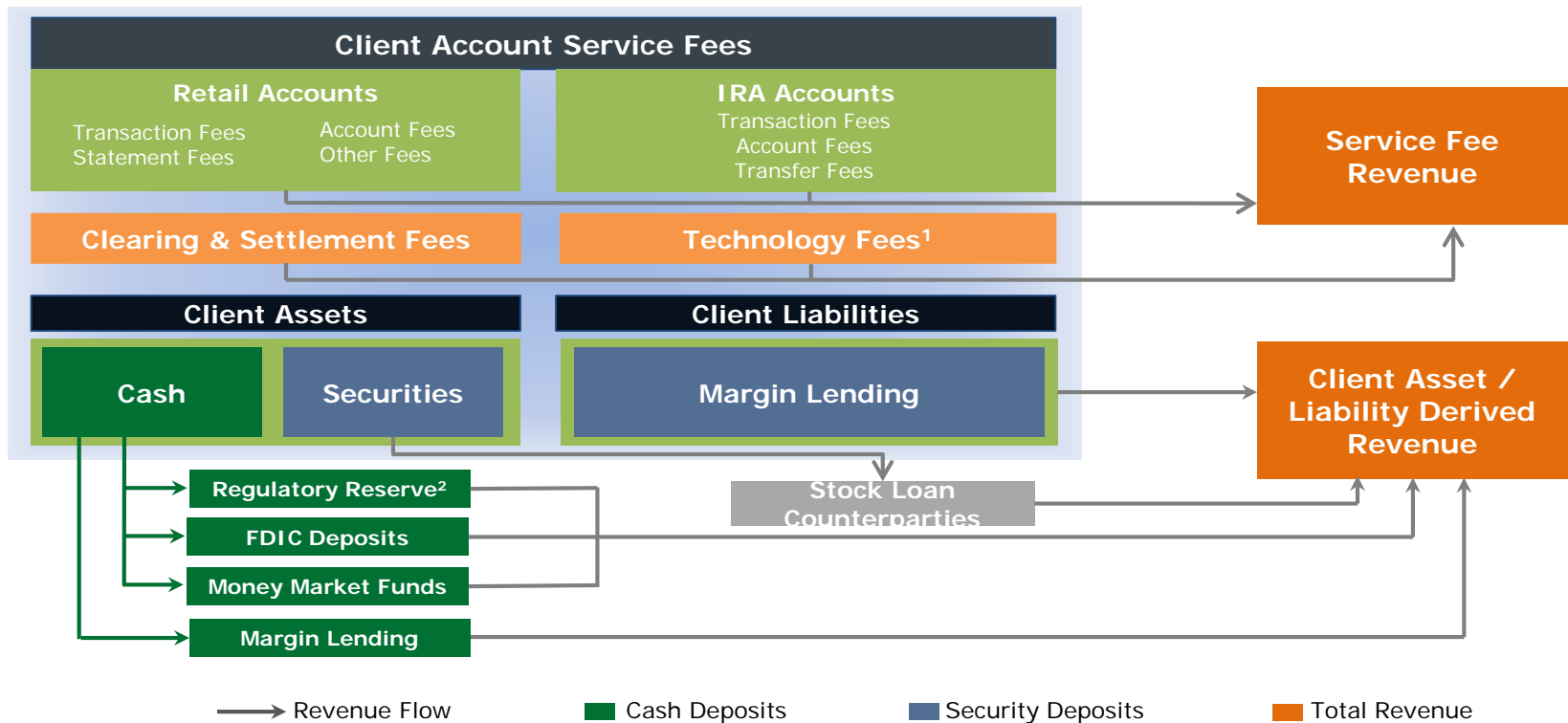
Fixed Income

Provides user-friendly portal access in an agency capacity



COR Clearing sits in the middle of the trade life-cycle and touches more than 90,000 customer accounts; providing several additional services and product expansion opportunities

Clearing Firms Are Compensated For The Services They Provide To Broker Dealers As Well As The Spread On The Utilization Of Client Cash and Security Assets



1. Technology Fees paid by introducing broker dealer 2. Regulatory Reserve refers to SEC Rule 15c3-3 Reserve Requirements

Securities Clearing Value Chain

