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# Scottish Pacific Business Finance

ASX : SCO

April 2017



scottish pacific  
BUSINESS FINANCE

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# Agenda

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1. Overview of Scottish Pacific
  - Our purpose, vision and strategy
  - Board and management
2. Debtor Finance explained
3. Industry Outline
4. Scottish Pacific's Approach
  - Product range
  - Risk Management
  - Funding
  - Service proposition
  - Key drivers
5. Current Trading
6. Outlook
7. Appendix

# 1 Overview of Scottish Pacific

# Scottish Pacific Group – The Working Capital Specialist

### Vision

The leading working capital financier for all SMEs and mid-market companies in Australia and New Zealand and leading trade financier in the UK

### Fundamentals

Can support a business in all economic cycles

Cash flow is the lifeblood of every business

Management of SME facilities are more labour intensive

### Must Do

Attract new clients - large and small

Existing client growth

New products

### Delivering

Annual NPAT growth exceeding 5%

Annual Dividend exceeding 65% of NPAT

Expanding the target market

# Scottish Pacific's Management Team

*Scottish Pacific's management team has 150 years of collective Australian debtor finance experience*



**Peter Langham**  
*Chief Executive Officer*

- 32+ years in debtor finance
- Joined Scottish Pacific in 1993
- Established Benchmark Debtor Finance in 1998 and continued as CEO following acquisition of Scottish Pacific in 2007



**Chris Hedge**  
*Chief Financial Officer*

- 21+ years in debtor finance
- Joined Scottish Pacific in 2003
- Formerly the National Manager of AGC debtor finance (now Westpac)



**Steven Davies**  
*Chief Operations Officer*

- 22 years in debtor finance
- Joined Scottish Pacific in 2016 following acquisition of Bibby
- Founding director of Bibby's Australian operations



**Wayne Smith**  
*Head of Debtor Finance*

- 14 years in debtor finance
- Joined Scottish Pacific in May-2010
- Led Scottish Pacific rebranding in 2012 and leads new product development



**Craig Michie**  
*Head of Specialised Finance*

- 15+ years in debtor finance
- Joined Scottish Pacific in 1987 and re-joined in 2012
- Founded Taurus Trade Finance (debtor and trade finance) which was acquired by Suncorp in 2011

# Scottish Pacific Board of Directors

Highly experienced, majority independent Board with diverse backgrounds



**Patrick Elliott**  
*Chairman*

- Founding partner of Next Capital
- Previous Board roles include Chairman of JB Hi-Fi and Director of Invocare and the Reject Shop
- Chairman of AVCAL in 2004



**Peter Langham**  
*Executive Director*

- 32+ years in debtor finance
- Joined Scottish Pacific in 1993
- Established Benchmark Debtor Finance in 1998 and continued as CEO following acquisition of Scottish Pacific in 2007



**Peter Clare**  
*Independent NED*

- Former Chief Executive Officer of Westpac New Zealand and prior to that numerous senior executive roles with Westpac and St George Bank
- Director of Scottish Pacific, ChimpChange (Chairman), Digicash, Capital Markets Technologies 3, Rubik Financial



**Katrina Onishi**  
*Independent NED*

- Director of Vitaco including Chair of Audit & Risk Committee and member of Remuneration and Nomination Committee
- Previously executive director of Concord Capital



**Andrew Love**  
*Independent NED*

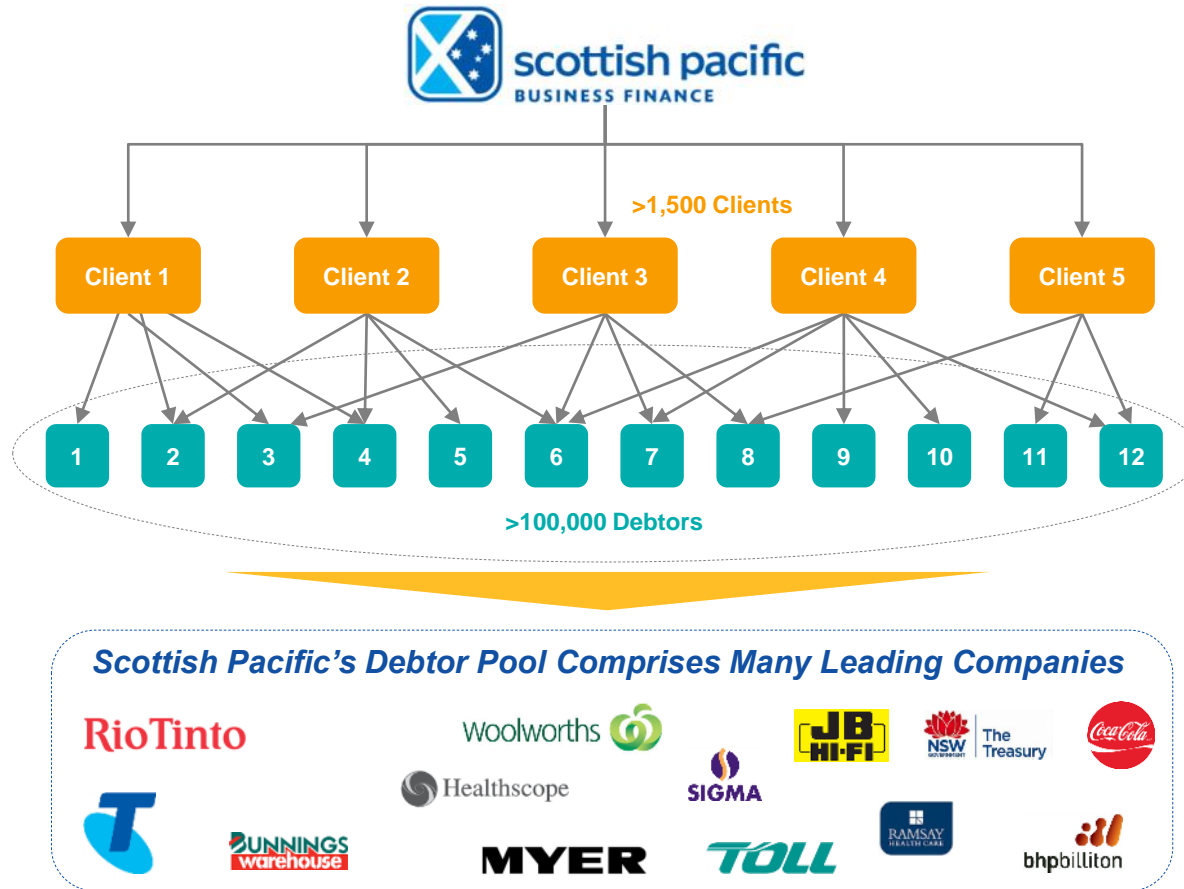
- Chairman Gateway Lifestyle and Non-Executive Director of Champion Iron
- Previous directorships include ROC Oil (Chairman), Charter Hall Office Trust, Riversdale Mining, Lead Lease Primelife

# X

## 2 Debtor Finance Explained



# How Debtor Finance Works



# Benefits of Debtor Finance

Debtor Finance bridges the cashflow gap between SME expense and invoice cycles

## Alternative Sources of SME Funding

Property-secured  
Overdraft

Friends and Family

Credit Card Facilities

## Debtor Financing vs Alternative SME Funding Sources

### Accessible

- No requirement to pledge real estate, in particular the family home
- Based on the ability and willingness of debtor to pay rather than the client
- Independent of stage in company life cycle

### Fast

- Straightforward product that is easy to use
- Streamlined approval process
- Sales converted to cash within 24 hours

### Flexible

- No bank style covenants
- Funding support proportional with sales growth
- Allows for flexible payment terms to promote higher sales

### Efficient

- Superior capital efficiency relative to alternative SME funding sources
- Debtor management function outsourced to specialist

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## 3 Industry Outline

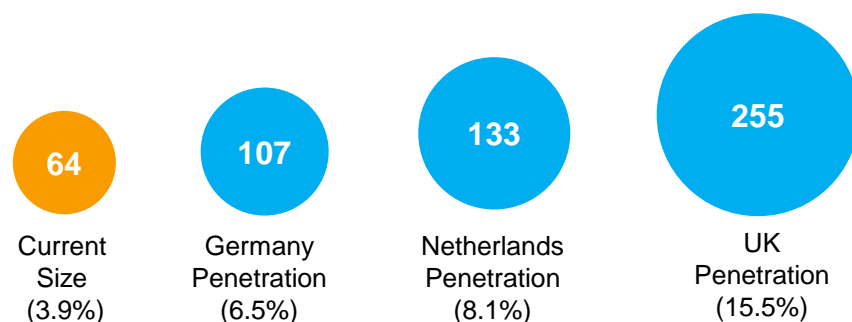
# Industry Outline

Significant scope to increase Australian SME awareness of Debtor Finance solutions



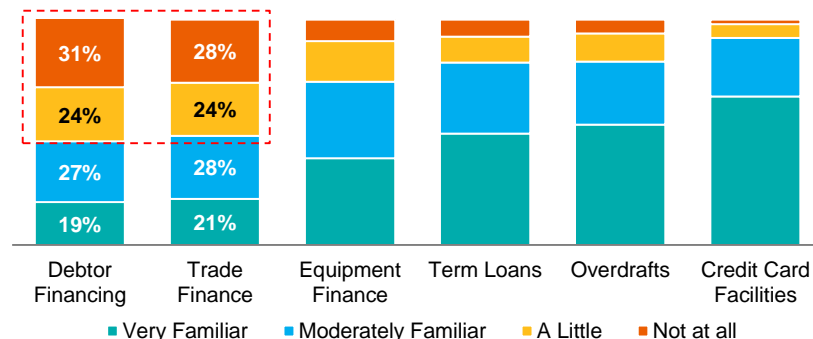
## Australian Debtor Finance Penetration

Illustrative Market Size of Australian Debtor Financing Assuming Increased Penetration (A\$bn)<sup>2</sup>



## Awareness of Debtor Finance Market with SMEs

Over half of SMEs know little, or nothing at all, about debtor financing and trade finance



Source: Factors Chain International Annual Review 2015 and Euromonitor (Market penetration), Australian Bureau of Statistics (Number of SMEs in Australia), Deloitte Access Report (Awareness of debtor finance market), Australian government budget (Government support), BCBS second consultative document on Revisions to the Standardised Approach for Credit Risk released Dec-2015 (Increasing capital requirements)

<sup>1</sup> Dun & Bradstreet. Calculated as number of business to business (B2B) Australian companies in industries suited to debtor finance with annual sales between \$500,000 and \$250m.

<sup>2</sup> Market penetration defined as annual debtor finance market turnover as a percentage of country GDP.

<sup>3</sup> Turnover is defined as the face value of all receivables purchased by a debtor financier in the year.

# Scope to Expand the Market

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- Significant scope to increase Australian SME awareness of Debtor Finance solutions
- 2 million Australian SMEs
- Reducing home ownership
- Business confidence up
- Scottish Pacific generating 500 new business enquiries per month
- Need to fill the void

## Scottish Pacific Growth Index March 2017

Record high SME intention to use non-bank funds

- A record percentage of businesses plan to use non-bank financing (22 percent, doubling from 11 percent in Round One, September 2014). This contrasts with declining bank borrowing intention (29 percent, significantly down from 38 percent in Round One) <sup>1</sup>

More than 90 percent of SMEs not happy with cash flow

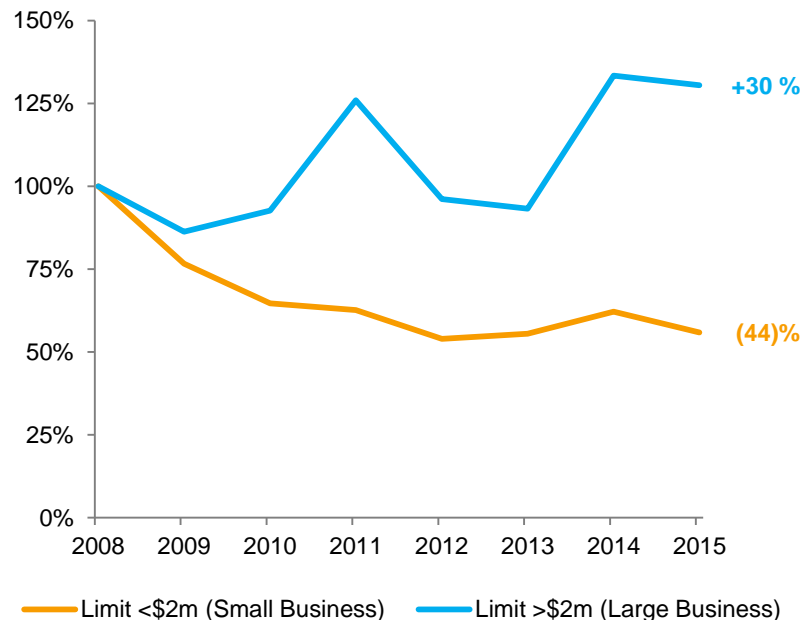
- Only 8.5 percent of all SMEs reported that they were satisfied with their cashflow (just 5 percent of growth SMEs were satisfied). Seven out of ten, whether growth, consolidating or declining SMEs, said better cashflow would have improved 2016 revenues by more than 5 percent

<sup>1</sup> Scottish Pacific Growth Index March 2017- East & Partners conduct six monthly polls of more than 1200 small to medium enterprise leaders across all states and key industries, to test SME sentiment and concerns

# Cashflow Based Funding Solutions Increasingly Important for SMEs

There is a growing unmet need for debtor finance as Australian banks continue to focus on traditional lending and cashflow based lending products, such as debtor finance, provide an attractive alternative source of working capital for SMEs

**New Revolving Credit Commitments to Australian Businesses<sup>1</sup>**



- Since the Global Financial Crisis, bank lending appetite for smaller facilities, typically demanded by SMEs, has fallen
- Conversely, there has been an increase in new revolving credit limits to larger corporates

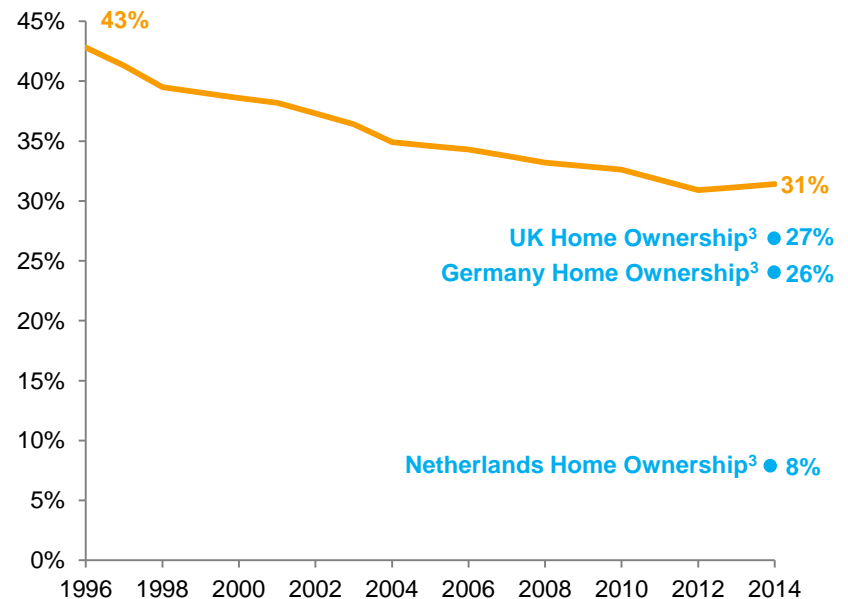
Source: Australian Bureau of Statistics. Eurostat

<sup>1</sup> New credit commitments expressed as a percentage of 2008 value. Source: RBA Bank Lending to Business: New Credit Approval by Size.

<sup>2</sup> Measured as number of Australian households that own their own home outright as a proportion of total Australian households.

<sup>3</sup> Measured as the percentage of the population that lives in a home that is owner occupied with no outstanding mortgage.

**Australian Home Ownership (%)<sup>2</sup>**

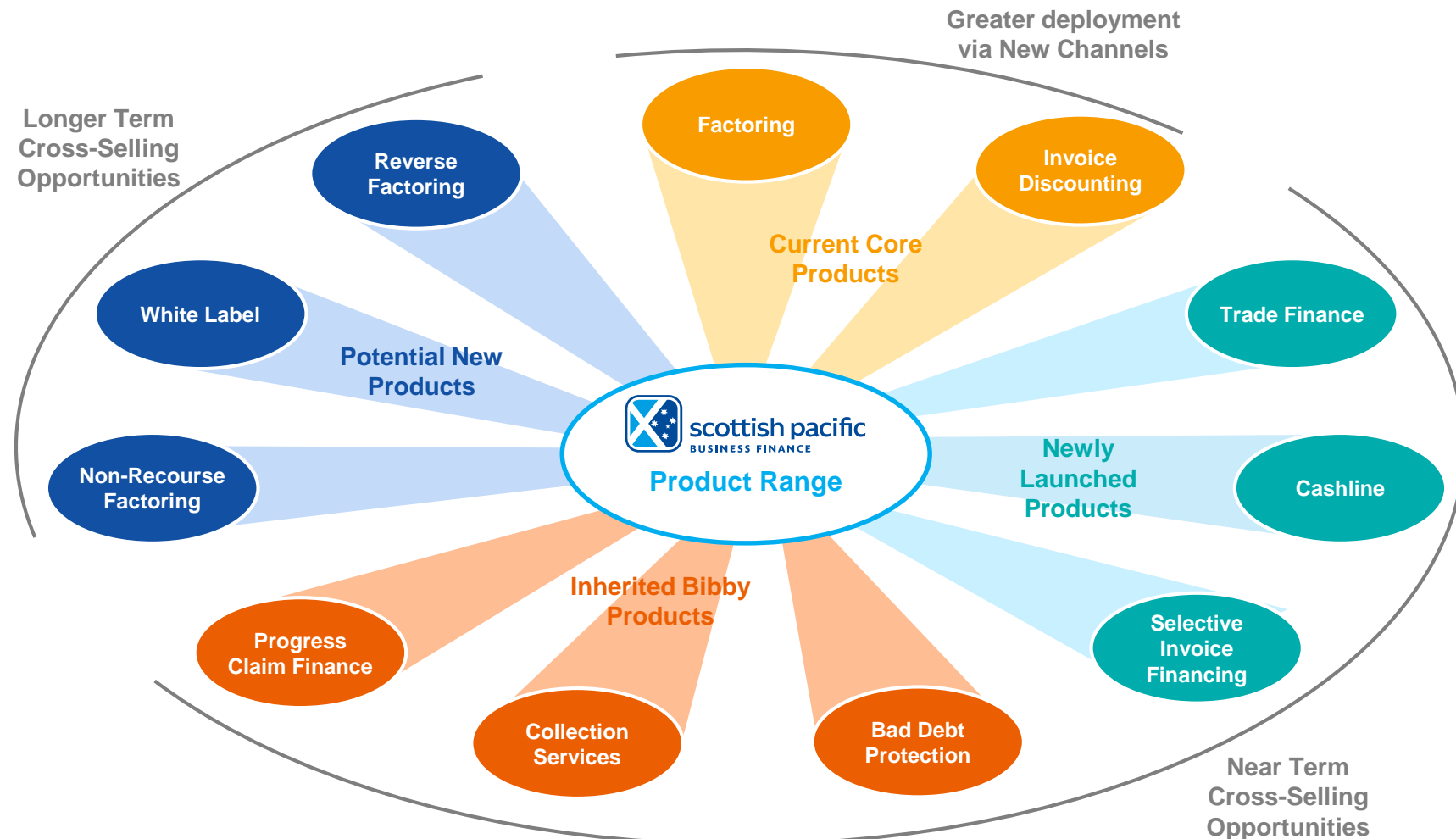


- SMEs are commonly required to pledge real estate property as collateral for traditional bank lending facilities
- The proportion of Australian households that own their own home outright has fallen by 25% over the period from 1996 to 2014

# 4 Scottish Pacific's Approach

# Scottish Pacific Continues to Expand Product Range

Scottish Pacific continues to broaden its product suite and is well placed to cross-sell these products to existing clients as well as deploy them through new distribution channels including direct sales channel





# Risk Management – Overview

A rigorous and disciplined approach to credit risk management has been critical to keeping losses low

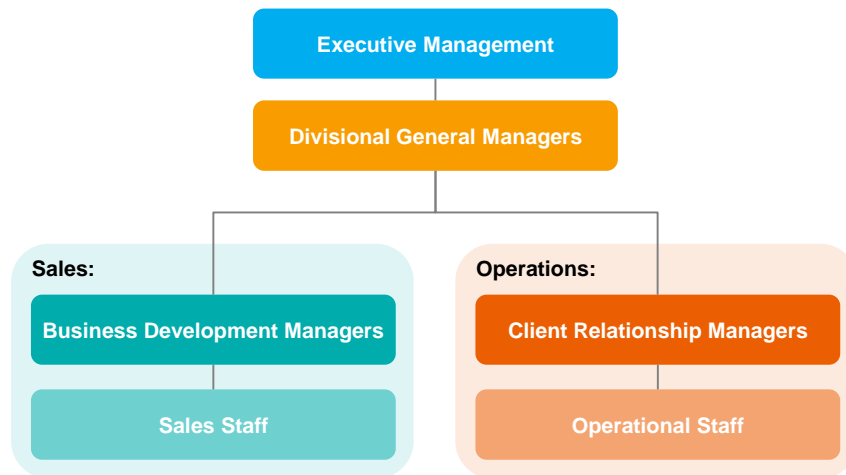
## Credit Risk and How it is Mitigated

- Scottish Pacific's key credit risk is default by underlying debtors (not the borrower)
- The structural mechanics of Scottish Pacific's approach to debtor finance, credit assessment procedures and monitoring processes seek to mitigate this risk
- **If a debtor defaults:** all uncollected debtor invoices are full recourse to the client
- **If a borrower defaults:** underlying invoices remain enforceable and are collected in ordinary course

## Approach to Credit

- Comprehensive initial and ongoing client and debtor assessments
- Every facility is assessed manually – all supporting documents are reviewed and approved by authorised personnel
  - Historical financials, debtor and creditor ledgers, tax returns, bank statements, external verification searches
- Policies and procedures are subject to ongoing review and improvement by Risk and Compliance team to reflect market best practice and lessons learned from previous experience
- Centralised Risk and Compliance team of [19] people with oversight of credit policy and procedures

## Sales and Credit Separation

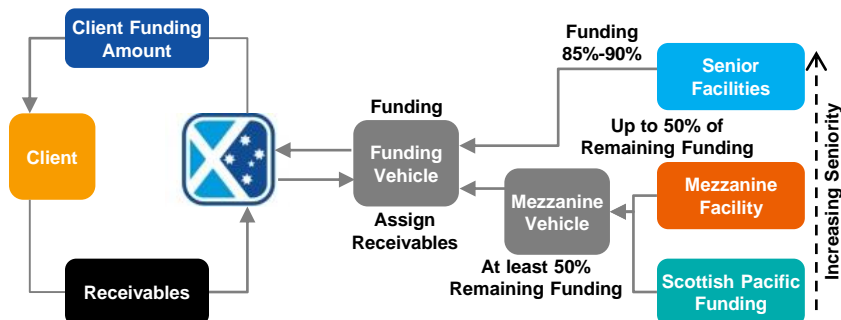


- All credit approval, ongoing client management and monitoring processes are separated from Scottish Pacific's sales function
- Credit approvals are performed by Senior Operational Managers, Divisional General Managers or Executive Management whom are directly accountable for loss performance.
- Key decision makers are remunerated with long-term equity incentives to ensure business sustainability and alignment of objectives

# Diverse, Stable and Reliable Funding

Long term and diversified funding support in place to fuel future growth

## Scottish Pacific Business Model



## Highlights of Funding Facilities

### Senior Facilities

- ✓ Supportive banking relationships lasting over 10 years
- ✓ History of expanding limits to support growth
- ✓ Major banks continued to lend through the Global Financial Crisis
- ✓ Senior facilities provide up to 90% of the total funding

### Mezzanine Facility

- ✓ Funded via third party financiers
- ✓ Supports senior facilities by providing "first loss" capital to Funding Vehicles
- ✓ Co-invests alongside senior facilities up to 50% of the remaining funds
- ✓ Mezzanine Facility has additional \$15m of headroom to support exposure growth

### Corporate Debt

- ✓ Facility primarily in place to fund recent acquisitions and provide a source of contingent liquidity to the business
- ✓ Funded by five non-bank financiers

## Overview of Scottish Pacific Funding Facilities

Facility	Term	Commitment (\$m)	Drawn
Major Bank 1	1 year + 1 year <sup>1</sup>	585	n.a.
Major Bank 2	1 year + 1 year <sup>1</sup>	250	n.a.
Global Investment Bank	3 years + 1 year <sup>1</sup>	300	n.a.
<b>Total senior facilities</b>		<b>1,135</b>	<b>594<sup>2</sup></b>
Mezzanine Facility	3 years	60	45 <sup>3</sup>
<b>Total limited recourse facilities</b>		<b>1,195</b>	<b>639</b>
Corporate Debt	3 years	70	59 <sup>3</sup>
<b>Total</b>		<b>1,265</b>	<b>698</b>

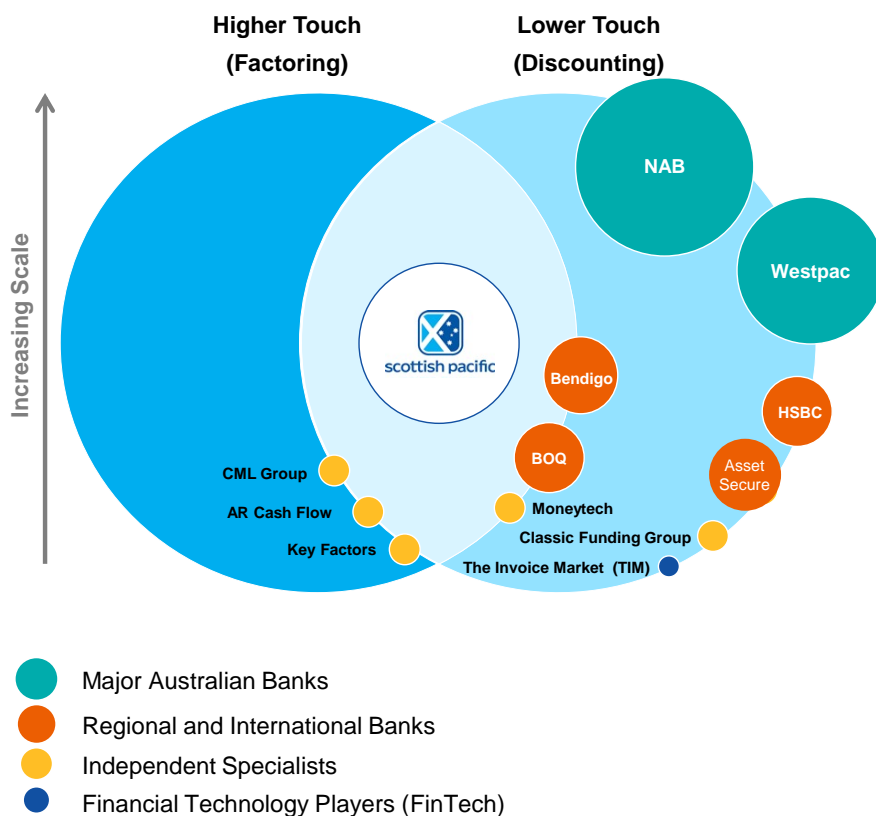
<sup>1</sup> Revolving period with 1 year amortisation period. Major Bank 1 facility matures June 2017, Major Bank 2 facility matures May 2018 and the Global Investment Bank facility matures May 2020.

<sup>2</sup> Drawn amount as at 31 March 2017. Does not reflect GE and Suncorp acquisitions <sup>3</sup> Drawn amount at IPO (reflecting GE and Suncorp acquisitions).

# Scottish Pacific's Service Proposition

Scottish Pacific's strong brand is supported by a 'high-touch' servicing model and a broad distribution network

## Illustrative Competitive Landscape



## SME Lending Market Participants

	scottish pacific	Major Australian Banks	Regional & International Banks	Independent Specialists	FinTech
'High touch' servicing	✓✓	✗	✗	✓	✗
Speed	✓	✗	✗	✓	✓
Scalable Funding	✓	✓	✓	✗	✗
Factoring and Discounting	✓	✗	✓	✓	✗
Operational flexibility	✓	✗	✗	✓	✓
Dedicated Sales + Distribution Team	✓	✗	✗	✗	✗
Low risk, collateral based model	✓	✓	✓	✓	✗

Source: Management

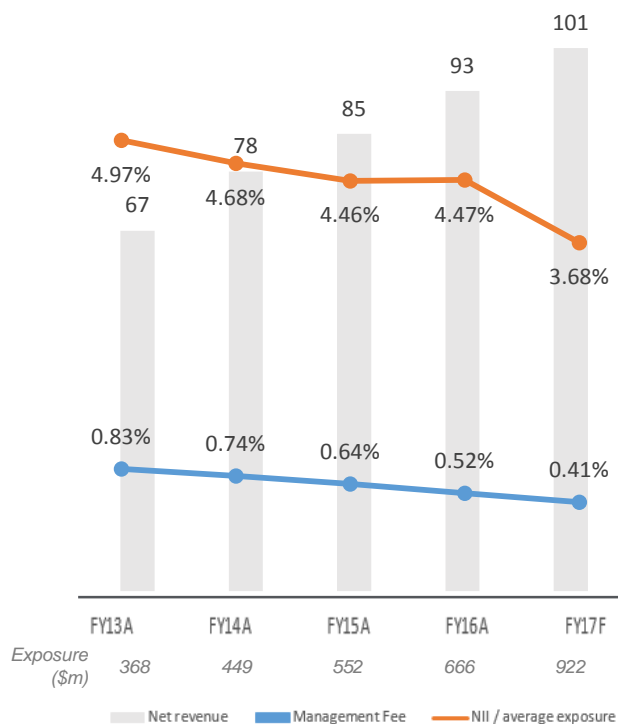
Note: Circle size and position represents Scottish Pacific's estimate of comparative funding exposure sizes and product mix of competitors in the Australian debtor finance industry. Leading position based on market share.

# 5 Current Trading

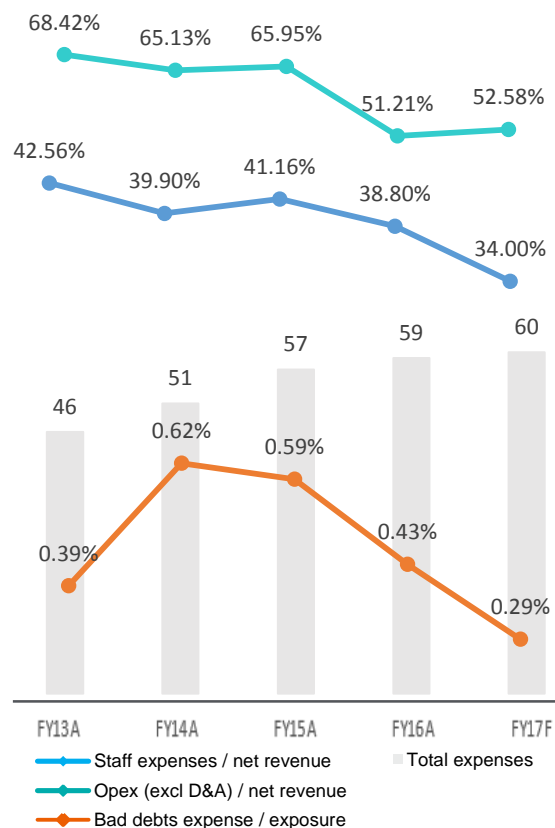
# Current Trading

Growth into larger, lower risk clients has reduced average management fees and net interest income as a % of average exposure – yet volume and sustained cost improvements are forecast to increase PBIT margins from 31% (FY13) to 40% (FY17F)

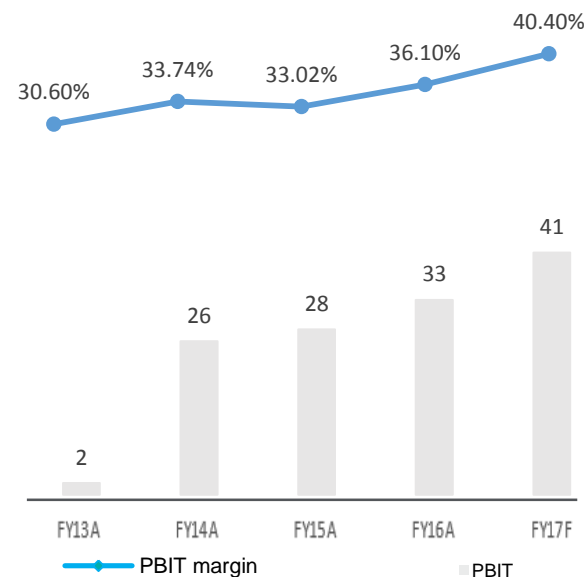
## Revenue



## Operating Costs



## PBIT



# 6 Outlook

# Outlook

Scottish Pacific has delivered strong net revenue growth. The business is forecast to grow PBIT at an 18% CAGR between FY15 and FY17F

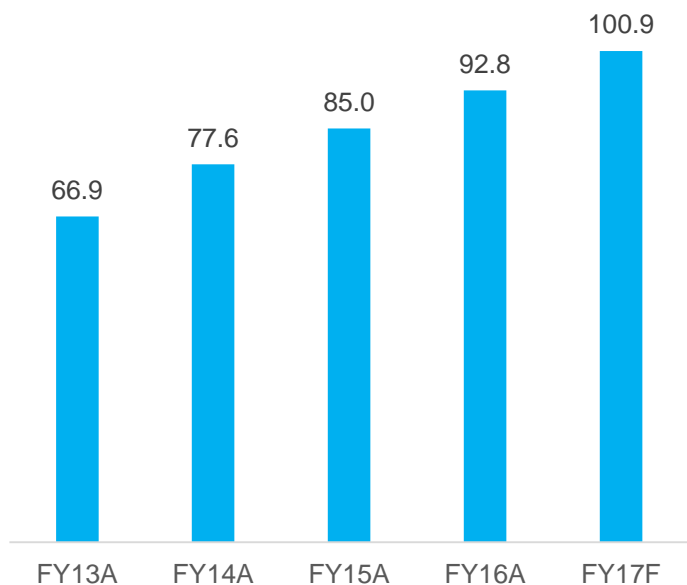
## Pro forma net revenue

**12.7%**

FY13 – FY15 CAGR

**8.9%**

FY15 – FY17 CAGR



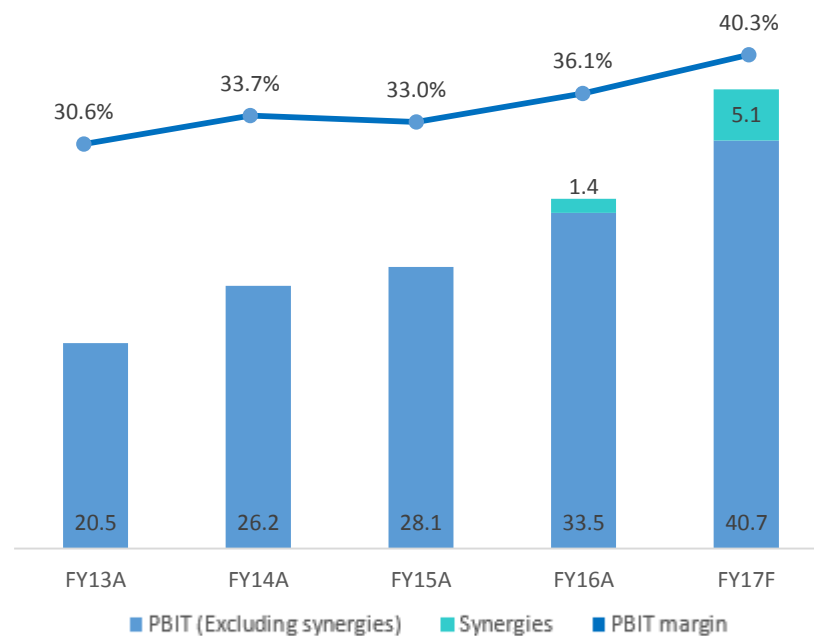
## Pro forma PBIT

**17.0%**

FY13 – FY15 CAGR

**20.4%**

FY15 – FY17 CAGR



# Outlook

1

## Growth in Direct Originations

### Investing in direct distribution capabilities

- ✓ Development of direct products with “quick and easy” application processes
- ✓ Direct sales and marketing team with 7 FTEs
- ✓ \$2m marketing budget in FY17

### Early success

- ✓ 130% increase in direct lead generation
- ✓ Direct marketing sources accounted for 13% of new business in FY16 and 22% in the first 9 months of FY17 (vs. 9% in FY15)

2

## Growth from New Referral Agreements

### Referral arrangements with 2 of the top 5 Australian banks<sup>1</sup>

- ✓ Scottish Pacific is set to benefit from the broad network of relationships these banks have within their business banking divisions

### Significant opportunity

- ✓ One of the referral arrangements contributed significantly to GE's new clients. There is a potential of further upside from the offering of broader product suite by Scottish Pacific to that bank's clients.

3

## Improved Market Awareness

### Growing the market

- ✓ Combined resources of Scottish Pacific, Bibby and GE debtor finance now dedicated to improving product awareness and growing the market
- ✓ Dedicated sales team of 47 FTEs (24 of which are BDMs focused on new client conversion)
- ✓ 61% of new clients to Scottish Pacific are new to debtor finance

<sup>1</sup> Based on gross loans and advances (APRA Monthly Banking Statistics, April-2016)



# Outlook

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- Client activity and borrowing has recovered since 14 November 2016 Trading Update, continuing into 2hFY17
- Healthy levels of new business being experienced across all channels
- Current client borrowing in line with expectations
- Positive cost controls are continuing across the business
- Anticipate increased contribution from Progress Claim Finance, Selective Invoice Finance and Bad Debt Protection facilities
- As integration of acquired portfolios settle down, we are seeing client attrition levels move to more acceptable levels
- Continue to seek new lending opportunities to meet the needs of the target market
- We remain comfortable with the FY17 guidance provided in its Trading Update in November 2016 of:
  - Net Revenue of \$100.9m
  - PBIT of \$40.7m
  - NPATA of \$30.8m

# 7 Appendix

# Broad, Established Distribution Network

Scottish Pacific's highly diversified distribution network has been developed over its long history and is a key driver of consistent and growing customer demand

**3,700+**  
member broker  
network across  
Australia and  
New Zealand

No individual  
broker  
contributes  
more than **2%**  
of new deals

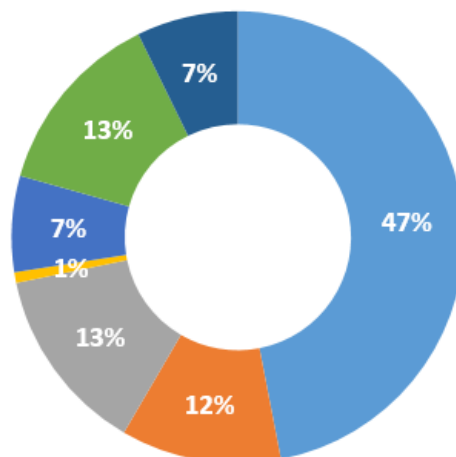
**2,000+**  
accountant  
referral  
contacts

**32** dedicated  
sales staff and **7**  
marketing staff

## Scottish Pacific Standalone New Deals by Source – FY2016

*Industry leading  
Net Promoter Score of  
+64% compared to major  
banks -16%*

*10-20% of new deals every  
year are referrals from  
existing and former clients*



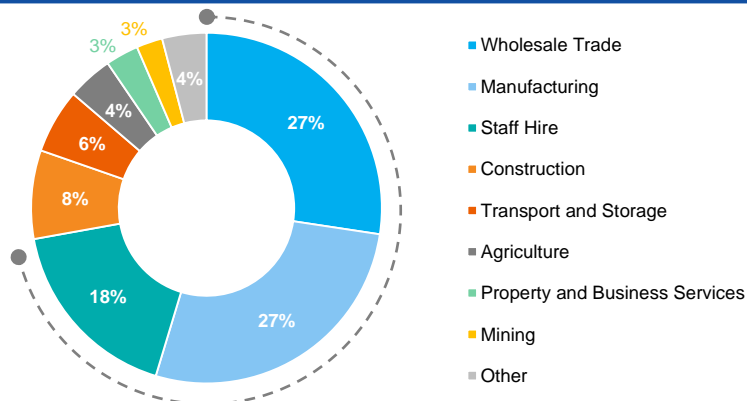
- Finance Brokers
- Clients, Former Clients and Former Prospects
- Accountants
- Major Banks
- Other Banks / Financial Institutions
- Internet
- Other

Source: Management, The 2014/15 Financial Institution Consumer Loyalty & Recommendation Study (Net Promoter Score)

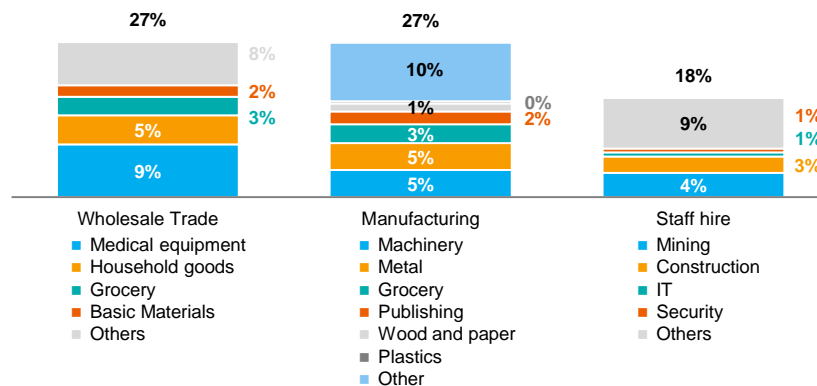
# Highly Diversified Portfolio

Highly diversified by industry with low exposure to the mining sector and limited concentrations to a region or a client

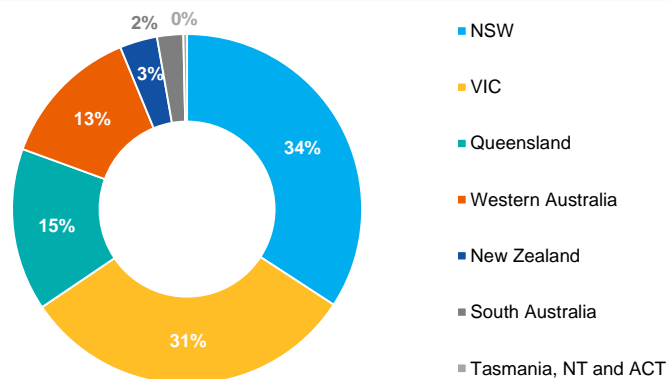
Client Exposure by Sector (31 Mar 2016)<sup>1</sup>



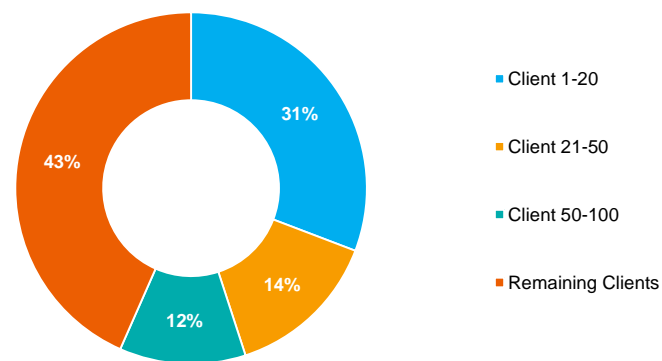
Client Exposure by Sub-Sector (31 Mar 2016)<sup>1</sup>



Funding Exposure by Geography (31 Mar 2016)<sup>1</sup>



Funding Exposure by Client (31 Mar 2016)<sup>1</sup>

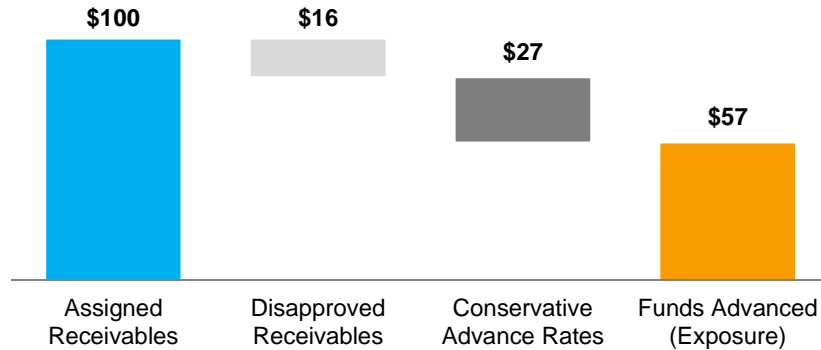


Source: Management  
<sup>1</sup> Includes Bibby.

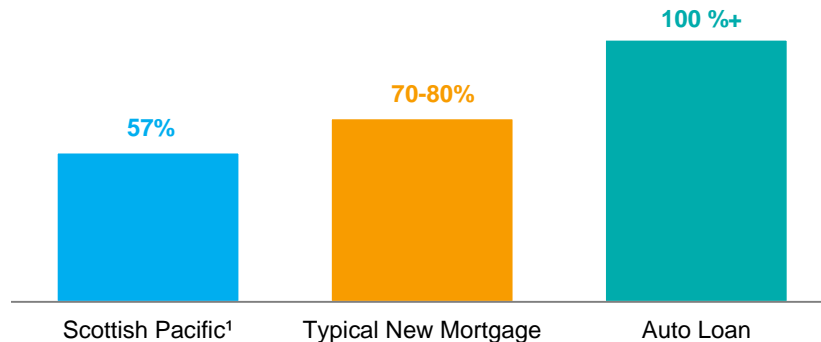
# Track Record of Strong Credit Performance Through the Cycle Supported by Conservative Collateral Position

A selective approval process and conservative advance rate provides Scottish Pacific with high collateral backing

**Illustrative Collateral Backing of Typical Client Advance (%)**



**A Conservative Day-1 Loan to Value Ratio (LVR)**



Scottish Pacific's lending practices have consistently delivered low loss rates through the cycle

**Scottish Pacific Standalone Losses (\$m)<sup>1,2</sup>**



Source: Management; Major banks (NAB and Westpac) investor presentations (Typical New Mortgage), rapidfinance (Australian Credit Licence: #392965) (Auto Loan)

<sup>1</sup> Losses reflect historical write-offs under current management, net of recoveries. Excludes losses in relation to discontinued non-Debtor Finance facilities which substantially relate to periods prior to FY12A.

<sup>2</sup> Two major fraud losses incurred in FY09A (\$2.7m) and FY10A (\$1.1m).

# Low Risk Balance Sheet and Attractive Dividend Policy

## Low Risk Balance Sheet

- Pro forma drawn debt balance of \$59m with \$70m facility size providing headroom
- Superior quality credit relative to peers
  - Secured over 100% of receivables with advance rate of ~50 - 60%
  - Short repayment of less than 60 days
  - No residual value risk
  - Strong underlying credit and risk profile – secured over debtor receivables
- Business is expected to throw off significant cash and delever into FY18 and beyond
- Supported by strong through the cycle performance

## Attractive Dividend Policy

- The Directors intend to pay out 60-80% of NPATA as a dividend. First dividend was paid in March 2017 (fully franked)
- Dividend policy consistent with funding double-digit growth in average exposure
- Dividends are expected to be franked to the maximum extent possible
- No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend

## Pro Forma Net Debt<sup>(1)</sup>

		Dec 16
Corporate Debt	A\$m	54.6
Cash	A\$m	(10.6)
<b>Net corporate debt</b>	<b>A\$m</b>	<b>44.0</b>
<b>Shareholders' equity</b>	<b>A\$m</b>	<b>196.4</b>
<b>Pro Forma FY16 PBITDA</b>	<b>A\$m</b>	<b>36.6</b>
Less: GE & Suncorp FY 16F PBITDA	A\$m	(1.1)
Add: Full year impact of GE& Suncorp	A\$m	6.9
<b>Pro forma FY16 PBITDA (annualised)</b>	<b>A\$m</b>	<b>42.5</b>
<b>FY17 PBITDA</b>	<b>A\$m</b>	<b>47.2</b>

Notes: (1) Net debt shown on pro forma basis for impact of the Offer, mezzanine financing and the acquisition of GE and Suncorp; (2) FY2016F Pro Forma PBITDA (annualised) is calculated based on the FY2016F Pro Forma PBITDA (\$36.3m) adjusted to annualise the contribution of the GE and Suncorp Portfolio Acquisitions. The adjustment is required to ensure the debt position at Completion of the offer and the earnings profile reflected in the ratio are consistent. The adjustment does not reflect any future synergies from these portfolio acquisitions.