scottish pacific
BUSINESS FINANCE

FY17 RESULTS PRESENTATION

29 AUGUST 2017

Peter Langham, CEO
Chris Hedge, CFO

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FY17
KEY HIGHLIGHTS

FY17 ACHIEVEMENTS
ORGANIC LENDING GROWTH 11.3%

Portfolio

Margins remained steady throughout FY17 and in line with expectations

Organic year on year loan book growth of 11.3% to June 2017

- Total new business enquiries up 70%
- New business generated from direct sources, now exceeding 20% on an ongoing basis
- Bedded down two bank referral agreements
- Improved the client offering for Selective Invoice Finance, Bad Debt Protection and Progress Claim Finance to enhance ease of use

Risk Management

Strong underwriting standards maintained

Investment in Risk & Compliance capabilities through additional staff resources and an integrated system package providing real-time and streamlined data

Leading to low FY17 Bad and Doubtful Debts of 0.13% of Average Exposure
(FY16 0.43%)

People

New roles created adding resources in marketing, new product development, credit and operational excellence

Completed the operational restructure after merging four businesses/portfolios

Staff engagement scores increased in FY17

Funding

Three banks now providing core warehouse facilities

Facility limits increased by $125M to $1,343m, with $439m of headroom

Mezzanine warehouse introduced, reducing SCO equity support to 5% from 10%

OUR PURPOSE, VISION AND STRATEGY

SCOTTISH PACIFIC GROUP - THE WORKING CAPITAL SPECIALIST

scottish pacific BUSINESS FINANCE

Vision

The leading working capital financier in our chosen markets – helping our clients to achieve their aspirations

Fundamentals

- Can support a business in all economic cycles
- Cash flow is essential at all stages of business life
- SMEs are under serviced and require a high touch approach

Must do

- Attract new clients - large and small
- Continually invest in efficiency
- Add new products to enable us to service a higher number of SMEs

Delivering

- Double digit EPS growth
- Annual Dividend 60%-80% of NPATA
- New products to an expanded target market of over 1 million SMEs

FINANCIAL HIGHLIGHTS – PRO-FORMA

REVENUE ON GUIDANCE, PBIT AHEAD OF GUIDANCE

scottish pacific
BUSINESS FINANCE

Net Revenue	PBIT	NPAT
$100.4M up 8.2%	**$41.7M** up 24.4%	**$25.3M** up 21.1%

Cost to income ratio	NPATA	Underlying EPS
down from **57.5%** to **50.8%**	**$29.4M** up 27.2%	**18.2CPS** up 20.8%

FY18 Guidance

HIGH SINGLE DIGIT PBIT GROWTH

- Core Debtor Finance to continue book growth ~10%

FY17 Pro-Forma guidance:

Net Revenue of
$100.9M

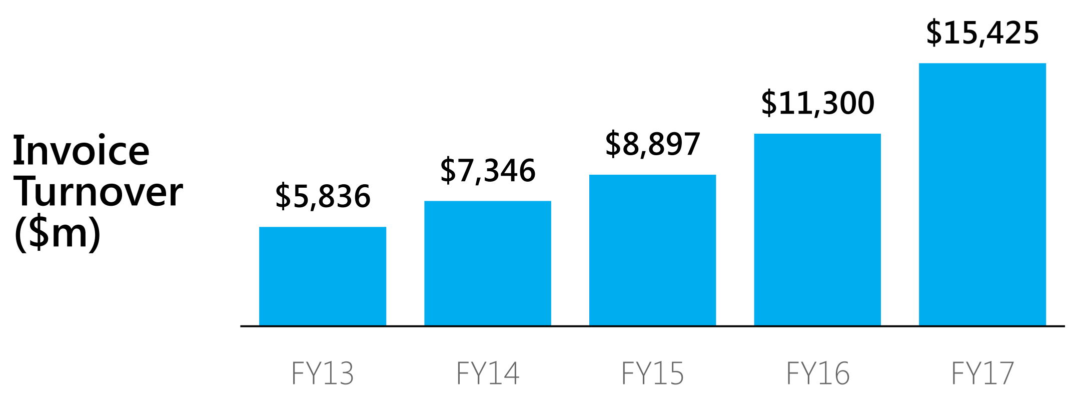
PBIT of
$40.7M

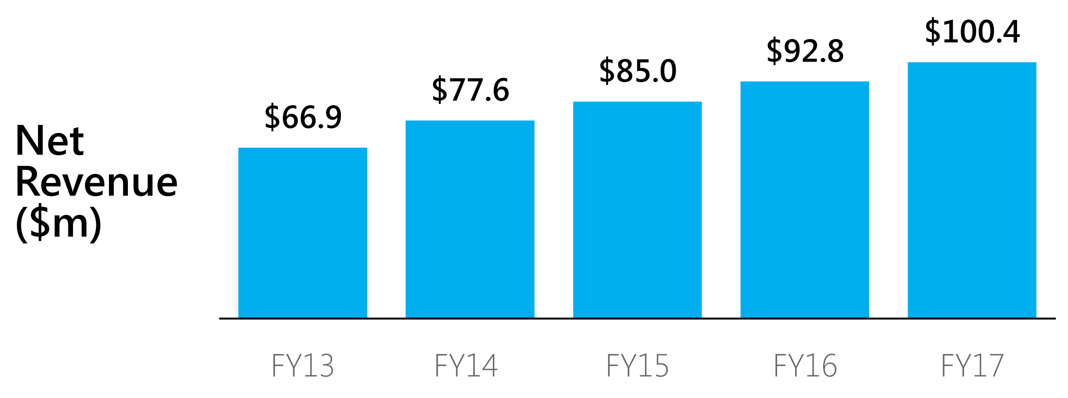
NPATA of
$30.8M

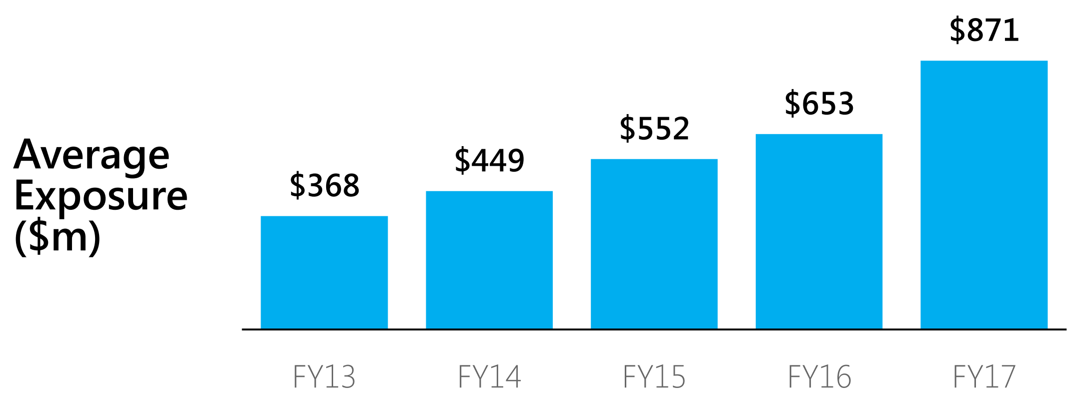
Final dividend (fully franked) of
8.5CPS

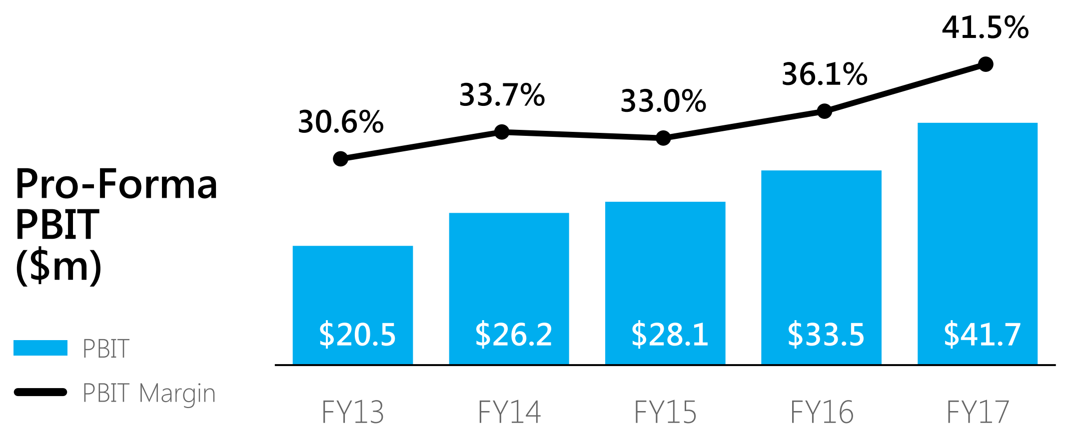
Interim dividend (fully franked) paid of
8.0CPS

GROWTH IN VOLUMES AND LOAN BOOK
DRIVING NET REVENUE AND PBIT INCREASES





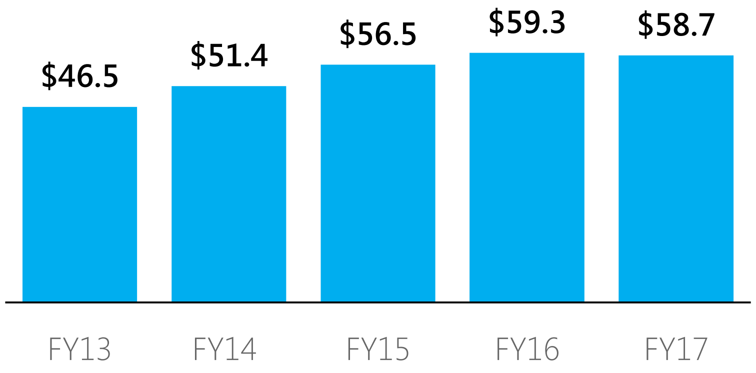




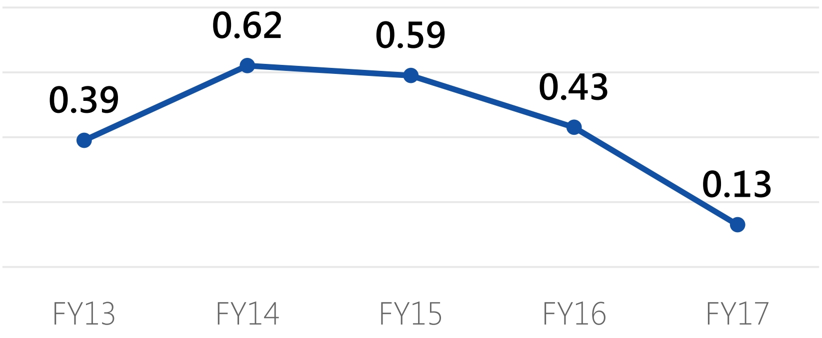
STRONG OPERATIONAL MANAGEMENT
DRIVING GOOD EXPENSE OUTCOMES

Disciplined approach to credit standards,
underpinning outstanding low bad and doubtful debt performance

Total expenses* ($m)

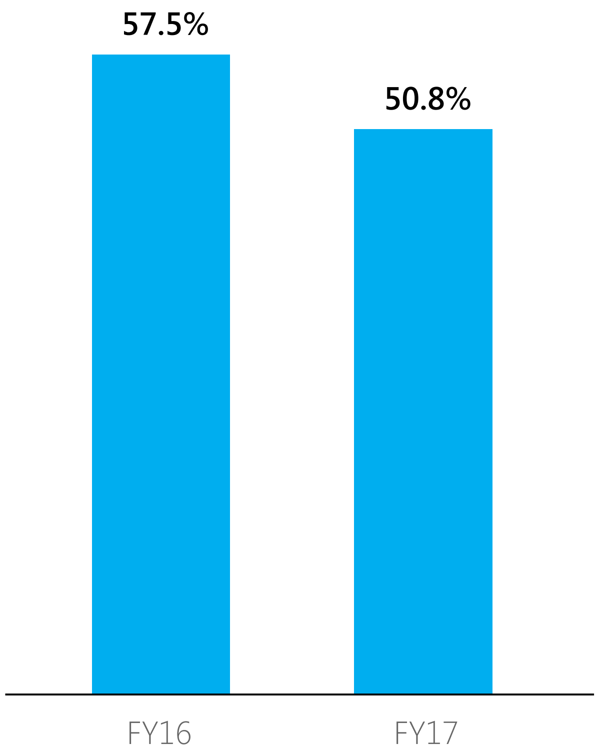


Bad and doubtful debt expense (%)



Increased scale driving cost efficiency,
whilst maintaining investment in people and systems

Opex (excl. B&DD, D&A) / Net Revenue



* Including bad and doubtful debts and amortisation

H2 SHOWED GOOD GROWTH ON H1

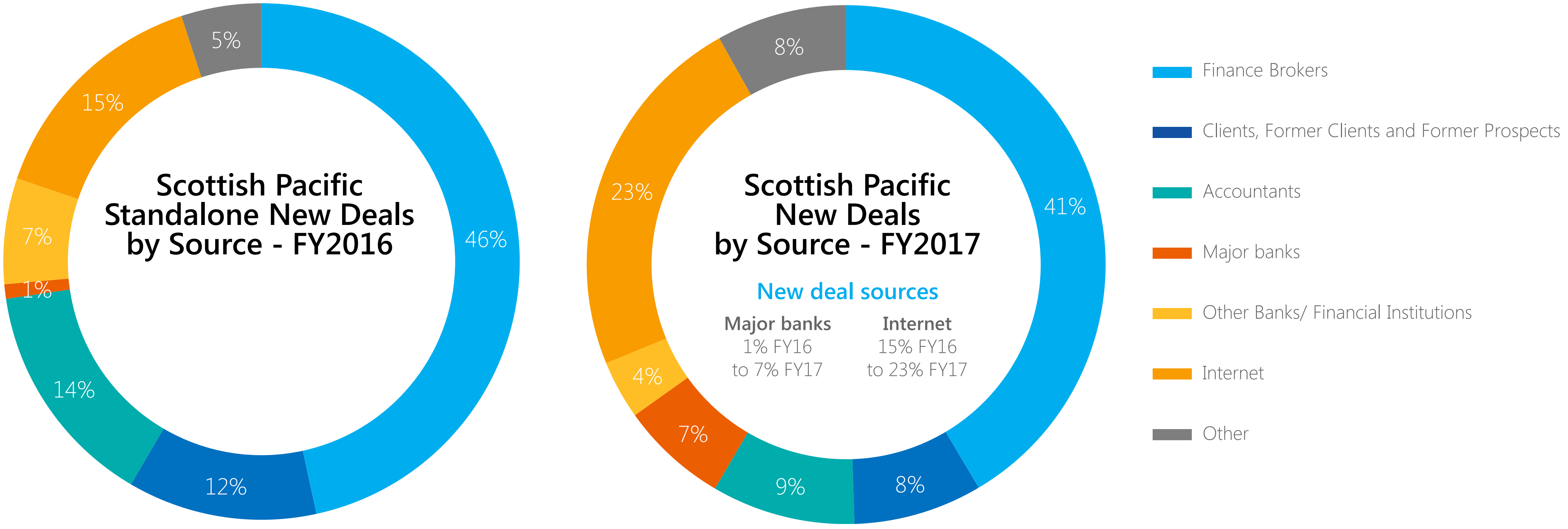
H1 IS HISTORICALLY THE STRONGER HALF

$ millions	1H17 (Pro-Forma)	2H17 (Pro-Forma)	Change	FY17 (Pro-Forma)
Management Fees – Debtor Finance	31.5	31.7	0.40	63.2
Management Fees – Trade Finance	2.7	2.5	(0.2)	5.2
Net Interest Income	15.7	16.3	0.40	32.0
Net Revenue	49.9	50.5	0.60	100.4
Key Metrics				
Average Management Fee	0.45%	0.45%	-	0.45%
Average Exposure ($m)	845.9	895.9	50.0	871.0
Net Interest Income / Average Exposure	3.71%	3.59%	(12bps)	3.65%
Net Revenue Margin	11.8%	11.27%	(53bps)	11.53%

- Organic loan book growth June on June of $84m (11.3%)
- Strong growth from existing clients
- Average client exposure increased during the year
- Fees and Margin levels steady throughout the year
- New products with smaller exposures carrying higher margins – balances with larger clients with lower margins

INCREASING NEW BUSINESS VOLUMES
FROM DIRECT CHANNELS AND BANKS

Nearly a 50% increase in broker relationships and a 50% increase in accountant relationships



More direct channels drives better pricing
Bank referrals lead to deeper relationships into larger organisations

IMPROVED FUNDING STRUCTURE EASILY SCALABLE AND CAPITAL LIGHT

OVERVIEW OF SCOTTISH PACIFIC FUNDING FACILITIES

Facility	Term	Commitment ($m)	Drawn at 30 June 2017
Major Bank 1	1 year + 1 year[1]	708	n.a.
Major Bank 2	1 year + 1 year[1]	275	n.a.
Global Investment Bank	3 years + 1 year[1]	300	n.a.
Total senior facilities		**1,283**	**854**
Mezzanine Facility	3 years[2]	60	50
Total limited recourse facilities		**1,343**	**904**
Corporate Debt	3 years[3]	70	59
Total		**1,413**	**963**

[1] Revolving period with 1 year amortisation period. Major Bank 1 facility matures June 2019, Major Bank 2 facility matures May 2019 and the Global Investment Bank facility matures May 2020.
[2] Mezzanine facility matures June 2019.
[3] Corporate debt facility matures December 2018.

FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY-PRO-FORMA

PERFORMANCE IN LINE WITH GUIDANCE GIVEN IN NOVEMBER 2016

$ millions	FY17	FY16	Change $	Change %
Management fees - Debtor Finance	63.2	59.0	4.2	7.1%
Management fees - Trade Finance and Other	5.2	4.6	0.6	12.4%
Net Interest Income	32.0	29.2	2.8	8.8%
Net Revenue	**100.4**	**92.8**	**7.6**	**8.2%**
Staff expenses	(33.8)	(36.0)	(2.2)	(6.1%)
Office and administration expenses	(15.7)	(15.9)	(0.2)	(1.2%)
Marketing and advertising expenses	(1.5)	(1.5)	(0.0)	0.0%
Bad and doubtful debt expense	(1.1)	(2.8)	(1.7)	(60.7%)
Depreciation and amortisation	(6.6)	(3.1)	3.5	112.9%
Total expenses	**(58.7)**	**(59.3)**	**(0.6)**	**(1.0%)**
PBIT	**41.7**	**33.5**	**8.2**	**24.4%**
Borrowing costs	(5.2)	(3.5)	1.7	50.2%
PBT	**36.5**	**30.1**	**6.4**	**21.3%**
Income tax expense	(11.2)	(9.1)	2.1	23.1%
NPAT	**25.3**	**20.9**	**4.4**	**20.8%**
Acquisition amortisation	4.1	2.1	2.0	90.1%
NPATA	**29.4**	**23.1**	**6.3**	**27.2%**

Net Revenue

- Inclusion of acquired business for full year includes Bibby, GE and Suncorp
- Trade Finance growth despite tighter market conditions 2H17

Staff costs

- Benefit of synergies offset by investment in strategic growth
- New head count in business improvement driving efficiencies and new product development bringing new products to market in FY18

Strong Bad and Doubtful Debt performance

- Additional staff and improved real time data analysis systems

Full year impact of amortisation of intangibles

- Largely customer contracts acquired from GE and Suncorp

CASHFLOW

STRONG OPERATING CASH FLOW OF $42.4M, BEFORE FINANCING, TAX AND DIVIDENDS

$ millions	FY2017A	FY2016A	$Var	Statutory FY2017A
Cash Flow				
Net Profit before Tax	**36.5**	**30.1**	**6.4**	**27.5**
Add back non-cash Items				
Bad and doubtful debt expense	(1.0)	2.8	(3.8)	(1.0)
Depreciation and amortisation	8.1	4.5	3.6	8.1
Other			-	
Movement in working capital	(1.2)	7.5	(8.7)	(7.5)
Operating cash flow before financing and tax	**42.4**	**44.8**	**(2.4)**	**27.1**
Capital Expenditure	(0.4)	(1.2)	0.8	(0.4)
Equity Investment in Non-recourse Trust	(11.0)	(8.0)	(3.0)	
Net increases in client receivables	-	-	-	(81.7)
Proceeds from warehouse debt facilities	-	-	-	70.7
Lease payments	-	-	-	(0.2)
Net cash flow before corporate financing and taxation	**31.0**	**35.6**	**(4.6)**	**15.5**
Income taxes paid	(9.1)	(8.2)	(0.9)	(9.1)
Acq'n of new business (net of cash acq.)	(2.2)	-	(2.2)	(2.2)
Proceeds from the offer				77.7
Movement in corporate debt facilities				(10.0)
Pre-IPO dividend				(36.4)
Interim Dividend	(11.1)	-	(11.1)	(11.1)
Transaction costs				(6.3)
Redemption of LTI scheme				(12.4)
Net Cashflow	**8.6**	**27.4**	**(18.8)**	**5.7**
Opening Cash				**16.1**
Closing Cash				**21.8**

Cashflow Bridge $ millions	Statutory FY2017A
Cash Flow	
Opening Cash	16.1
Proceeds of Listing	77.7
Pre-IPO dividend	(36.4)
LTI Payout	(12.4)
Repayment of Corporate Debt	(10.0)
Listing costs offset to equity	(6.3)
Listing costs expensed (Pro-Forma P&L adj)	(8.9)
Payment in FY17 of Restructuring costs incurred in FY16	(6.6)
Cash flow from operations	42.4
Tax payments	(9.1)
Dividends	(11.1)
Equity Investment in Non-recourse Trust	(11.0)
Capex	(0.4)
Acquisition of UK Business	(2.2)
Net Cash Movement	**5.7**
Closing Cash	**21.8**

BALANCE SHEET

$ millions	Statutory FY17	Remove Limited Recourse	Pro-Forma FY17	Statutory FY16	Remove Limited Recourse	Add-in Impact of IPO	Pro-Forma FY16	Change $
Assets								
Cash and cash equivalents	21.8		21.8	16.1		0.3	16.4	5.4
Restricted Cash	146.7	(146.7)	-	129.3	(125.0)	-	4.2	(4.2)
Client receivables (net)	830.1	(821.2)	8.9	745.7	(740.1)	-	5.6	3.3
Other debtors and prepayments	3.1		3.1	6.4		(2.1)	4.3	(1.2)
Investment in Funding Vehicles		68.3	68.3		61.1		61.1	7.2
Current and deferred tax assets	10.3		10.3	6.5		5.9	12.4	(2.1)
Property, plant and equipment	1.8		1.8	2.1			2.1	(0.3)
Goodwill and Intangible assets	157.2		157.2	162.8			162.8	(5.6)
Total Assets	**1,171.0**	**(899.6)**	**271.4**	**1,068.8**	**(804.0)**	**4.1**	**268.9**	**2.5**
Liabilities								
Trade and other payables	15.1	4.8	19.9	29.4	5.4	-	34.8	(14.9)
Loans and borrowings	959.1	(904.4)	54.7	876.3	(809.4)	(10.0)	56.9	(2.2)
Total Liabilities	**974.2**	**(899.6)**	**74.6**	**905.7**	**(804.0)**	**(10.0)**	**91.7**	**(17.1)**
Net Assets	**196.8**	**-**	**196.8**	**163.1**	**-**	**14.1**	**177.2**	**19.6**

- Pro-Forma client receivables represents client exposure funded solely by Scottish Pacific
- Investment in Funding Vehicles represents Scottish Pacific's equity contribution in funding warehouses
- Trade and other payables reduction due to payment of restructuring and listing costs unpaid at June 2016
- Loans and Borrowings on a Pro-Forma basis is corporate debt less unamortised borrowing costs

DIVIDEND

Final dividend of **8.5 cents** per share, fully franked

Interim dividend of **8.0 cents** per share, fully franked, paid 22 March 2017

Total dividend represents a payout ratio of **78.2%** of NPATA

Dividend dates

Shares trade ex-dividend: **7 September 2017**

Record date: **8 September 2017**

Payment Date: **22 September 2017**

STRATEGY & OUTLOOK

GROWTH STRATEGY

CONTINUE TO GROW CORE DEBTOR FINANCE
ADDING NEW PRODUCTS TO ACCELERATE GROWTH

Expanded Product and Target Markets

Proactively identify and develop new products that open new markets, and deepen existing relationships

Continue to review acquisition opportunities to acquire new product capability or distribution

Continue to increase penetration of newer products (i.e. Selective Invoice Finance, Bad Debt Protection, Progress Claim Finance and AFL)

Develop funding solutions for 1m SMEs

Book Growth, Pricing & Efficiencies

Increased lending to quality clients that have demonstrated good credit history

Continue to invest in the Online New Business portal to capture a new audience and drive additional volumes

Continue to focus on operational agility, efficiency and ability to scale, reducing costs whilst enhancing the customer experience

Greater Deal Origination and Marketing Capability

Enhance digital and direct marketing to further grow direct channel and lower cost of client acquisition

Continue to develop digital platforms, to originate business, integrate into partners and enhance the customer experience

New Chief Customer Officer and new Product Development Manager, roles created Q1 FY18 to enhance the customer growth strategy

Strategic Partnerships Opportunities

Significant focus on developing new channels to market through strategic partners and commercial agreements

Recruiting additional sales people in Melbourne and Sydney to service larger deals from new sources

Continued engagement with the big banks to provide lending solutions to their customers when they are unable

LEVERAGING SCOTTISH PACIFIC'S SCALE, BRAND, FUNDING AND DISTRIBUTION

TRADING UPDATE AND OUTLOOK

Book growth to continue at ~10% from a strong opening position, with numerous growth drivers. PBIT growth in the high single digits

July 17 book growth up 14% on same period last year. Pipeline of new opportunities remains strong

Further increase in Net Revenue from Selective Invoice Finance, Bad Debt Protection and Progress Claim Finance, after product improvements made during FY17

Fees and Margins to remain steady

The company is targeting a sustained reduction in bad and doubtful debt expense but will not change its provisioning policy until the reduction is well established

Staff costs expected to normalise following no payment of STIs in FY17

KEY CHARACTERISTICS

The market for non bank lenders to SMEs continues to expand with tightening of scope by major banks

Debtor financing is stable through the economic cycle, is not subject to regulatory risk or residual value risk as may be the case with other NBFIs

Risk sits with the underlying debtor not the SME borrower. The highly liquid nature of the security combined with very low loss rates supports a deep and robust funding environment

With a loan book of ~$1bn, SCO is by far the largest non bank provider of debtor finance and is believed to have more debtor finance clients than any of the banks

Economies of scale create cost efficiencies, broad access to debt markets, the largest sales team in the industry and the capital to invest in new products and technologies. Scale also facilitates larger loans without creating customer concentration risk

The model is capital light with only 5% equity support required for new loans

SCO has almost 30 years of dealing with over 4,000 brokers and 3,000 accountants and the most experienced management team in the market

SCO continues to offer shareholders growth whilst maintaining a strong dividend payout ratio

Q&A

APPENDICES

STATUTORY INCOME STATEMENTS

Statutory income statements	FY2017A $m	FY2016A $m
Revenue		
Management fees - Debtor Finance	62.9	43.5
Management fees - Trade Finance and Other	5.2	4.6
Net Interest Income	**32.2**	**25.1**
Interest income	67.9	47.6
Interest expense	(35.7)	(22.5)
Net Revenue	**100.3**	**73.2**
Staff expenses	(33.8)	(27.7)
Office and administration expenses	(24.6)	(32.6)
Marketing and advertising expenses	(1.5)	(1.0)
Bad debt and doubtful expense	(1.1)	(2.2)
Depreciation and amortisation	(6.6)	(3.0)
Total expenses	**(67.6)**	**(66.5)**
PBIT	**32.7**	**6.7**
Borrowing costs	(5.2)	(6.2)
PBT	**27.5**	**0.5**
Income tax expense	(7.1)	(0.4)
NPAT	**20.4**	**0.1**

Statutory to Pro-Forma income statement reconciliation	FY2017A $m	FY2016A $m
Statutory Revenue	**100.3**	**73.2**
Pro-forma adjustments		
Adoption of AASB139 re: Management Fee income	0.3	
Adoption of AASB139 re: Net Interest income	(0.2)	
Bibby revenue contribution		21.4
Bibby Unused Line Fee		0.6
Reporting reclassifications		
New mezzanine funding		(2.4)
Adjustments total	**0.1**	**19.6**
Pro-forma revenue	**100.4**	**92.8**
Statutory NPAT	**20.4**	**0.1**
Pro-forma adjustments		
Bibby acquisition		9.6
Bibby Unused Line Fee		0.6
Transaction and restructuring costs		19.5
Incremental public company costs		(1.5)
Bonus adjustment		(1.0)
Change in corporate debt structure		2.8
Amortisation of acquired intangibles		-
New mezzanine funding		(2.4)
Offer costs	8.9	2.1
Adjustments total	**8.9**	**29.6**
Tax effect of adjustments	(4.1)	(8.7)
Pro-forma NPAT	**25.2**	**20.9**
Acquisition amortisation add-back	**4.1**	**2.1**
NPATA	**29.4**	**23.1**