15 November 2017

Chief Executive Officer's Presentation to the 2017 Scottish Pacific Group Limited Annual General Meeting

Thank you, Mr Chairman.

I am pleased to present a summary of the FY17 results and activities.

Before I talk about our business in more detail, I must start by expressing my extreme gratitude to all directors and staff of Scottish Pacific, for their support and efforts over the last 12 months.

We've made steady progress in a year of transformation. All the activity of acquisitions, integration and an IPO are well behind us and we are now focused on leveraging our market leadership. We continue to redefine the future of the debtor finance industry with solutions that meet the changing business needs of our customers.

The year in review

- Net Revenue $100.4m (up 8.2%)
- PBIT $41.7m (up 24.4%)
- NPATA $29.4m (up 27.2%)
- Bad and Doubtful Debts 0.13%
- Fully franked final dividend 8.5 cents per share – fully franked interim dividend 8.0 cents per share
- Organic June on June loan book growth of $84m (11.3%)

Financial year 2017 was a year of constant improvement as we developed innovative ways to strengthen our industry leadership position and continue to grow debtor finance penetration.

This time last year, we indicated that we had increased investment into finding and servicing clients. We have continued to invest in our sales and marketing team, and product innovation, to grow our direct origination capability.

The core business of Debtor Finance accounts for 95% of our loan book and 90% of our Net Revenue. This business grew strongly through FY17 with margins largely maintained. This was despite needing to integrate four portfolios which brought on temporary lower levels of borrowings and some higher than expected client attrition.

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We have since seen a marked improvement in reduced client attrition levels as the acquired portfolios are now aligned with our credit policy.

In the past financial year, Debtor Finance performance was enhanced through increased new business enquiries from new distribution channels and our investment in our sales and marketing team and pipeline that I mentioned earlier.

In Selective Invoice Finance, Bad Debt Protection and Trade Finance, we saw strong growth, albeit off low bases as all these products are relatively new. Our Progress Claim Finance division declined in FY17 as we reassessed the credit criteria required to support the product and exited some clients. With appropriate controls in place, Progress Claim Finance is returning to growth.

A stand-out during FY17 was our much lower than expected level of bad and doubtful debts.

Our Risk and Compliance team have done an outstanding job minimising bad debts. This area of our business provides oversight of day to day credit controls, but also important support to staff on the ground dealing with specific issues. It is very much a collaborative approach that minimises our losses whilst providing practical credit advice to our client management teams.

Due to greater than expected recoveries of specific provisions, we recorded a record low bad and doubtful debt loss during FY17. While levels of bad debts are expected to normalise in FY18, we are confident that our strict credit and compliance standards will result in the structural decline of bad and doubtful debts to levels below our 5-year historical average going forward.

During FY17, we invested further in a digital credit interface that provides live portfolio data to help identify potential credit issues. This with the extra staff resource has enhanced this area of our business.

These are all examples of ensuring we combine our depth of experience, risk mitigation processes and credit discipline with continual investing in operational enhancements including best-in-class systems, processes and protocols which ensure we have timely, critical case and financial information.

Of our staff, I can't express enough how much they have contributed to our success so far. They have had to deal with a lot of change through the integration, including many people moving to new roles with increased responsibilities.

We now have over 280 staff across, Australia, New Zealand, China and the UK.

Despite the extent of change during the year, staff engagement was very strong:

- Staff engagement scores actually increased in 2017, compared to our previous survey
- 43% of vacancies were filled internally with over 30% from staff referrals
- We finished the year with staff attrition rates of less than 13% (below the national average)

- 86% of staff showed a high engagement in being strongly committed to helping the organisation achieve its vision and goals
- The engagement score for Culture and Values was 85% (against the external benchmark of 64% being the average for other businesses who completed the survey)

Following the integration of our acquired businesses, we did see employee attrition higher than expected in some areas, resulting in lower employee costs than forecast. This will normalise as we continue to invest in our people. We added several new roles during the year, including in areas of staff training, business improvement and new product development. These are all investments in our future.

Part of what galvanises our culture and engages our people, is a genuine companywide focus on charity. As a part of that effort, Scottish Pacific is committed to matching any fundraising efforts of our staff, whether as a group or individually, to help amplify the impact. We also encourage staff to take paid days off from work, to participate in charity work. Our staff took part in numerous fundraising events during the year. At the time of writing, we have contributed over $128,000 to various charities. Scottish Pacific is currently implementing a Workplace Giving Program, “Scotpac Gives Back”, which will allow staff to easily support nominated charities by salary sacrifice.

Let me talk about our Executive Team

With the acquisitions of FY16, our business was transformed, more than doubling in scale. This necessitated a meaningful investment in our senior executive team with several new positions created, and changes to existing roles.

Firstly I must start by thanking Chris Hedge for his commitment and impact as CFO. Chris was central to many of the transformational activities over the last 18 months during which we put in place three acquisitions, two new funding warehouses, new corporate and mezzanine debt and listing on the ASX. In addition, Chris reorganised the whole finance department, ensuring that it provides the foundation for future growth. I am delighted that Chris has accepted the new challenge of making sure our UK investment maximises all opportunities in that exciting market.

As from the 14 November, we have a new CFO and Company Secretary, in David Rose. David has big shoes to fill, but he is well credentialed to help move our business into new and exciting areas.

Ben Cutler had been recruited to establish the new role of Chief Customer Officer. Ben left Telstra to join us and brings a fresh approach to how we expand our product offerings for existing customer segments and exploring new segments.

During FY17, we created a new role of Chief Operating Officer to accelerate our business improvement initiatives, improve oversight of staff development and training and oversee all matters of risk and compliance, IT and technology. Steve Davies moved into that role, having been one of the founders of Bibby Financial Services and before that having worked at Scottish Pacific. Steve has been highly effective in increasing what we do for our clients, improving how we do it and seeking operational efficiencies across the group.

Wayne Smith has done an outstanding job since moving to the Head of Debtor Finance in November. He has pulled together all the area General Managers to a coordinated and focused group, with many business improvements across different areas. We have seen our new business conversion rates improve and an increase in the productivity of our sales team.

The most recent change was to have Craig Michie lead our Specialised Finance area, as well as Trade Finance (of which he was previously the Head). This area of our business is crucial as we add new products as well as expand our younger products. These not only assist in retaining and winning new clients but will help us as we develop products for new markets.

With this group and structure, I am very excited about the future for Scottish Pacific.

Current Trading and Outlook

At the beginning of FY17, the Scottish Pacific credit controls imposed on the acquired books contributed in volumes below our expectations. Notwithstanding this, trading throughout the financial year has been consistent with expectations. Client attrition is quickly returning to target levels.

Across Australia, we are seeing green shoots in WA as the economy recovers from the commodity downturn. Continued infrastructure spending in NSW and Victoria has supported the growth of many of our clients, which in turn increases volumes for Scottish Pacific. Queensland and New Zealand are recording reasonable growth.

Our book growth for the first four months of FY18 was 17% on the same period last year, although we have seen some slippage in the level of management fees being charged as the deal sizes increase. Net interest margins are slightly ahead of expectations.

Specialised Finance exceeded expectations. With Chris Hedge now leading the team in the UK and the relaunch of Progress Claim Finance, we anticipate this to continue.

Costs will continue to be well maintained, including Bad and Doubtful Debts.

We confirm our guidance given on 29 August 2017, of high single digit growth in FY18 PBIT.

The fundamentals of our business remain the same. We provide essential working capital to the SME market, in a secure and flexible manner that does not require the business owner to offer their home as security.

Lending to the SME business segment is difficult for the large commercial banks to manage given the high touch nature of the credit process, borrowers who challenge the traditional credit model and relatively small borrowings per customer. Our existing products and business model address these issues well.

Going forward, we will continue to invest in technology and processes to make sure we give our clients the best possible experience. Whether it be making things simpler, faster or more convenient to access, we understand the importance of a great experience to our clients. In addition, we continue to find new ways to say "yes" more often to our target market, by tailoring our solutions to better match our clients' needs.

Most importantly, we are well positioned to expand the target market.

Scottish Pacific has many attributes that must be leveraged:

- Extensive network of business introducers - Brokers, Accountants and Bankers that has been established over 29 years of trading
- The largest sales force of any debtor finance provider
- The free cash to invest in growing our business
- 29 years of experience in dealing with SMEs and their working capital needs
- Expert credit underwriting skills and continued investment in risk and compliance
- Increasing direct new business channels and investment in online origination
- Stable, long-term, supportive warehouse funding relationships
- A motivated and engaged workforce eager to deliver for our clients and eager to take on new challenges
- Existing solutions outside debtor finance to attract and retain more clients

With the resources at our disposal, we are confident as a management team we can successfully target the wider SME market, growing beyond our Debtor Finance heritage.