ASX Announcement 28 February 2018

SCOTTISH PACIFIC REPORTS PRO FORMA NPATA OF $16.5M FOR THE HALF YEAR ENDING 31 DECEMBER 2017

Result Highlights – Pro-Forma

- FY18 guidance provided on 15 November 2017 Trading Update reaffirmed
- NPATA[1] $16.5m, up 10.0%
- Net Revenue $54.3m, up 8.8%
- PBIT $23.2m, up 9.4%
- PBIT Margin 42.7%, up 450bps
- Underlying EPS[2] 11.85cps up 10.0%
- Fully franked interim dividend of 9.0 cents per share, representing a payout ratio of 75.9% of 1H18 NPATA

Scottish Pacific Group Limited (ASX:SCO) today announced a strong half-yearly result with pro forma Net Profit after Tax (NPATA) of $16.5m, an increase of 10.0% over the prior corresponding period (pcp).

Overview

The first six months of the financial year saw Scottish Pacific profitably grow the core debtor finance business, and continue its expansion into new products, markets and channels. Net Revenue of $54.3m and pro forma Profit before Interest and Tax (PBIT) was $23.2m, representing increases of 8.8% and 9.4% respectively over the corresponding FY17 period.

Scottish Pacific's Average Exposure during 1H18 was $982.0m, an increase of 16.1% over the corresponding period.

The Group currently has a combined $1,283m in approved funding via its four warehouse facilities with $341m unused as at 31 December 2017.

Commenting on the results, Chief Executive Officer, Peter Langham said, "The core Debtor Finance Division is consistently generating 10%+ in Net Revenue growth and remains the engine room of earnings and operating cashflow. The Specialised Finance Division grew Net Revenue at a slower rate due solely to the drag from the UK operation and the slower than expected take up of Progress Claim Finance which was relaunched during the half. We expect a material improvement in both these areas

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[1] Pro Forma NPATA = Pro Forma Net Profit after Tax excluding amortisation and impairment relating to acquired intangibles and migration costs to the new operating system. Pro Forma 1H17 adjustments to the statutory results primarily reflect costs incurred in the period associated with Scottish Pacific's initial public offer and correcting the tax treatment of amortisation in the 1H17 result.
[2] Underlying EPS based on NPATA and total issued shares of 139.2m

going forward. The earnings result is particularly pleasing as the additional costs of staff STIs, training and a number of improvement initiatives were incurred in the half but absent from the prior comparative period.

Debtor Finance growth in Net Revenue of 10.4%, demonstrates the continued demand for this flexible form of working capital. In the six months to 31 December 2017, customer numbers grew by 3%. Of the new customers settled in 1H18, 74% were new to debtor finance. In addition, customer attrition reduced to 21.3%, consistent with historical rates.

The strong growth in the loan book has, in large measure, been achieved by the combination of new business and a close to 20% larger average lend per customer. However, the mix of the book has changed and as higher risk, higher fee customers from acquired portfolios are replaced with better quality customers, Net Revenue Margin has compressed. However, the impact of this is offset by lower attrition and a higher quality portfolio.

The ability to attract, retain and grow large customers demonstrates the Company's ability to effectively compete against banks with its broad and flexible product range and customer centric customer service model.

These outstanding numbers are supported by increased use of Specialised Finance products to win and retain customers and a continued focus on servicing more of our customers' unique business needs. With an increased ability to offer a broader suite of business facilities secured against assets other than receivables, we can retain and win more customers. Additional resources in Specialised Finance, will not only add directly to Net Revenue, but further increase Debtor Finance sales.

In 2H18 we will launch our Working Capital Finance loans to select, pre-approved customers secured over debtors and other assets as the next step in meeting more of the needs of our customers whilst leveraging our competitive advantage in asset backed lending.

1H18, saw a continued investment in business improvement and staff training. While these investments will not generate a full return until FY19, they are a key part of our plan to maintain our growth trajectory.

A review of operations identified areas in which the Group can further improve service to customers at a lower cost. Some of those changes have been implemented. As a result, operational staff numbers declined slightly on 1H17. We expect to see continued improvements in our underlying cost to income ratio in H2.

The migration to a single Customer Administration System will complete by September 2018. This will enable us to improve even further our customer proposition and streamline our processes, further improving the underlying cost to income ratio. Migrations at three locations have been completed successfully.

Stringent underwriting parameters and investment in the risk infrastructure has supported another excellent result in Bad and Doubtful Debts (BDD). There were minimal new specific provisions raised and further recoveries resulted in a BDD net recovery of $0.2m, in line with pcp. We are not seeing any changes to the underlying risk of the portfolio.

Cash balances increased by 17.4% over the half reflecting the high cash conversion and low capital intensity of the Group's business model.

The Company has declared a fully franked interim dividend of 9.0 cents per share. This represents a payout ratio of 75.9% of Pro forma NPATA; within the target payout ratio range of 60-80%.

Strategy and Outlook

With a strong pipeline of new opportunities across Debtor Finance and Specialised Finance we anticipate Net Revenue growth in 2H18 at least consistent with that of H1. With further improvements in cost controls, the Group reaffirms its FY18 guidance of high single digit PBIT growth.

-Ends-

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Scottish Pacific are hosting an investor conference call

Details: Wednesday 28 February 2018

11.00am AEDT

Dial in details:

Conference ID: 499322

Participant Toll Number: +61 2 9007 3187

Participant Toll Free Number: 1800 558 698

To ask a question, participants will need to dial “*1” (star, 1) on your telephone keypad.