

## **2018 Scottish Pacific AGM**

### **30 November 2018**

#### **Chairman's Address**

As we have just held the Scheme Meeting, I will not provide a long address.

However, I do want to acknowledge the efforts of management in delivering another year of strong profit growth. The successful embedding of acquisitions, has been followed up with impressive growth in Net Revenue and profits.

Scottish Pacific has continued to grow and provide working capital solutions to over 1,600 SME customers to assist them to improve their cash flow, grow their businesses and support their customer collections to free up time to reinvest in their business.

There are over 2 million SMEs across Australia, with over half requiring external financing and most identifying cash flow as their biggest challenge.

Scottish Pacific is the largest provider of debtor finance to SMEs in Australia and New Zealand with over \$17 billion of invoices financed in the FY18 year. This scale provides a number of unique benefits including access to low cost funding, unparalleled credit underwriting experience, and investment in new technology, marketing and product development.

With 30 years of experience, Scottish Pacific has a proven ability to navigate successfully through economic cycles whilst continuing to support the funding needs of SMEs, provide good career opportunities for its people and to grow the business and generate a steady, high return on equity to its shareholders.

Based on the addressable market and existing scale, the Scottish Pacific business is well positioned to continue to grow and management have a clear plan to increase the number of business owners Scottish Pacific helps, including adding a number of additional funding options

We are excited about the future of Scottish Pacific and appreciate the support of all of our customers, staff, shareholders and Board. With very few conditions remaining before the Scheme or Arrangement is implemented, I want to thank the Board, management and all the staff at Scottish Pacific for their contribution to the Scot Pac story. In the last five years I have witnessed the development of this outstanding business, so capably led by Peter Langham and the executive such that control will soon



pass to AEP at a premium price. I wish all the stakeholders every success in the future and the shareholders for their support during our life as a listed entity.

I will now hand over to our CEO Peter Langham who will discuss the financial and operational performance during FY18.

## **Chief Executive's Speech**

Thank you, Mr Chairman.

I am pleased to present a summary of the FY18 results and activities.

We achieved strong growth against the prior year with organic growth in our loan book up 14%, net revenue up 8.2% and a statutory net profit before tax of \$41.3m, up 50%. At the same time, expenses were carefully managed with the underlying operating cost to income ratio reducing to 50.2%, down 2.2%. Ongoing strict credit control resulted in a one-off downward adjustment of \$1.1m to bad and doubtful debts general provision, to align with lower historic loss rates.

During the year, we continued to build out the foundations of our strategy and future growth. This includes migrating all customer administration onto a single platform, extending our product offering to our existing Debtor Finance customers through our Specialised Finance team and building core internal capabilities in Customer Experience, Product Development and Treasury.

### **ACHIEVEMENTS**

#### **Customer experience**

Our business is based on relationships and our purpose is to give business owners a better chance of success. We offer an essential service to a widely underserved group of SMEs and providing our customers with the highest level of service is key.

Investment in new technologies and systems will continue to improve our customer experience by making it easier for our customers and intermediaries to do business with us. During the year we successfully completed the largest component of the migration onto a single customer administration platform.

Customer satisfaction is a key focus area, with the introduction of a standardised Net Promoter Score during the year to gain customer feedback on their relationship satisfaction. Based on the initial survey in January 2018, the overall NPS was +15 which, whilst higher than the industry average, provides scope for future improvement, particularly as the new platform becomes more familiar to customers.

Ongoing efforts on customer retention across the business has resulted in improved retention throughout the year.

## **People**

We are extremely proud of our staff who continue to go above and beyond to service our customers and deliver change within our business. Our people foster a strong culture and live our values that continue to attract others to the business. We now have over 280 staff spread across, Australia, New Zealand, China and the UK.

This year has been particularly busy with the migration onto a single customer administration platform. Despite the migration challenges during the year, staff engagement remained strong with an employee engagement score of 64% compared to an overall external benchmark of 61%. Unplanned staff turnover was just under 17%, in line with the national average but expected to improve as the number of change initiatives reduce.

Not only did staff remain engaged, they also embraced working together for the wider community. In January 2018, Scottish Pacific launched a Workplace Giving Program, "Scotpac Gives Back!" Fundraising efforts by staff, along with contributions to the new workplace giving program, contributed over \$140,000 to our Charity Partners: The Black Dog Institute, RedKite and The Salvation Army as well as 10 other charities across Australia and New Zealand.

Scottish Pacific has a fundraising matching policy, where we match the fundraising efforts of our staff, whether as a group or individually. We also encourage staff to take paid days to conduct charity work.

Employee wellbeing is also an ongoing focus with a Wellness Program launched to encourage and support our people to be and feel their best both at work and at home.

## **Sales and Marketing**

Further investment has been made to improve sales and marketing, including new teams focused on product development, partnerships, customer experience and customer insights.

Market research during the year confirmed the untapped market potential for SME financing and the way the business needs to evolve to match changes in customer behaviour. Speed, convenience and simplicity are key drivers of choice, with technology a key enabler. Under the 'ScotPac 2021' Strategy, targeted sales and marketing efforts have been identified to expand our working capital product offering and extend our key channels and partnerships.

Finance brokers, banks and accountants remain key referral partners. Our level of business sourced from our direct marketing team via internet and phone enquiries continues to increase, and we are working on ways to further improve conversion rates, particularly through the use of technology.

## **Risk Management**

During the year, the Scottish Pacific Risk Appetite Statement was approved to strengthen the risk framework across the business and to closely align to the strategy. This is used to set tolerances for risks and opportunities and to help identify and respond to material business risks.

Sound credit policies, customer assessment prior to on-boarding and ongoing monitoring continues to produce strong credit risk management outcomes. As a result of low levels of historic losses over 10 years, a one-off downward adjustment of \$1.1m was made to the general provision during the year to align to an ongoing general provision of 0.30% of customer balances. Underlying bad and doubtful debt expense (or specific provision) was just 0.12% of customer balances, down marginally on the prior year.

Operational risk has been a focus in response to business complexity and growth, with new investment in operational risk management systems, the development and roll out of company-wide compliance training modules and a focused effort on embedding operational risk principles within the business.

## **Expanding the market**

Based on our customer feedback, we have been able to identify areas of unmet need for our customers and the wider SME market. We have increased our investment in product development staff and are currently developing and launching several new products including secured loans, equipment finance and other asset backed lending. The new products and marketing strategy will ultimately expand the target market to over 1 million SMEs.

Our digital platform development is underway and is expected to provide quicker and easier access to working capital that SMEs have told us they need. The fast approval process will attract businesses that previously may have seen debtor finance as too overwhelming.

We have a solid and reputable brand and through strategic partnerships, Scottish Pacific will have access to new channels to market.

## **Trading Update and Outlook**

I would like to re-affirm the outlook we gave when announcing the FY18 results, that is Scottish Pacific is guiding to low double digit profit growth as measured by NPATA.

We are expanding our offering to a broader target market, with a focus on new products, such as Asset Finance, complementing the core Debtor Finance offering. The capability to provide facilities secured against assets other than just receivables will see new sources of income developed, particularly from FY19 onwards.

Scottish Pacific will continue to exercise strong control over expenses while ensuring it is still investing for the future. Targeted areas of investment include our people and the adoption of new technology that will further streamline our processes, making it easier to on-board and manage our customers.