

# ASX ANNOUNCEMENT

1 November 2019

## Financial performance in FY2019

I am pleased to present another consistent result for Collection House shareholders in FY19, with the Company posting:

- A 12% increase in Cash Collections from our Purchase Debt Ledgers (PDL) to \$122m plus a further \$24m from the Portfolio Enhancement Programme (or PEP for short)
- EPS was 22.3 cents up from 19.2 cents in FY18
- We met our profit target with an 8% increase in Net Profit After Tax to \$22m, excluding the profit recognised under PEP
- It was a record year for PDL purchases of \$133m, up 63% on last year, which included the acquisition of RML in New Zealand, and an asset purchase from ACM in Sydney
- The total dividend for the year increased by 5% to 8.2 cents per share, fully franked
- The Dividend Reinvestment Plan was active again this year, at a discount of 5%
- After a solid performance in FY19, which included significant PDL investment, we expect further strong performance in FY20

## Capital management & Strategy

We continue to optimise the Group's capital position with a view to delivering growth and improved returns on capital employed. Through our PEP and portfolio sale transactions, we seek to rapidly recycle capital into higher-yielding opportunities. To date our relationship with Balbec Capital LP and PEP has been central to this. In fact, we announced our third Balbec deal just this morning, and we have other similar initiatives under development.

We continue to encourage shareholders to participate in the Company's Dividend Reinvestment Plan, and I see that we've had a 27% take-up this year, a welcome endorsement from our shareholders. We are also changing our borrowing programme so that our Debt funding maturity more closely mirrors the long duration of our cash collections, where patience

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is crucial to ensure good customer outcomes and reliable financial returns.

This is good capital management and we hope soon to announce a restructure to the Group's senior lending arrangements through the introduction of longer term debt through a highly credible international financing counterparty.

Our data analytics capability provides us with a competitive advantage in terms of modelling customer preferences, the cost to collect, and the most appropriate strategy right down to account level. It places us in a strong position to buy debt at the right price and successfully assess affordable payment arrangements for our customers. We have spoken previously about our online portal, which is now responsible for over 10% of our Cash Collections. We look forward to sharing the new release version later this financial year.

But while a growing proportion of our service channels move online, the majority of our customers still prefer personal relationships with us. We continue to invest in training and skills development for our people, in order to provide them with all the necessary competencies to further grow their careers at Collection House and to provide our customers with the skilled support they need. Providing our customers with the flexibility to choose how they want to interact with us is pivotal to our strategy of helping our customers regain control of their financial position. We continue to deliver solutions which mean we can be there for our customers whenever they want, through a medium of their choice.

## **Governance and Culture**

Like most of the financial services sector, our industry and that of our banking clients has come under intense scrutiny this year. You may have seen recent media coverage about bankruptcies and our subsidiary Lion Finance. We always value feedback, and although we were acting completely within the law in pursuing legal remedies for a small portion of our customer base, we have been evaluating our stance on how we seek recovery through the legal process.

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We deal with tens of thousands of people each week, who are often working through difficult and emotional financial situations. Our commitment to our customers is to work with them, and give them the right help and support to take back control of their finances.

In doing so, we can nearly always find fair, flexible and realistic solutions tailored to their individual circumstances, including of course waiving or reducing debts where hardship, health or family difficulties make this the right thing to do. Our teams work extremely hard to help our customers recover their financial situations. However, there is a small proportion of people who, while having the ability to meet their obligations, are unwilling to engage with us and deal with the legitimate recovery of the money that they owe. This increases the cost of borrowing for all of us.

We have always held ourselves to a higher standard than required by the laws and regulations that govern our industry. Nevertheless, this year we have been reviewing our processes and procedures to ensure that they are both legally compliant, ethically sound, and we've been listening to the feedback from wider stakeholder groups on what is best practice conduct for a business in our industry.

As a result, we have now increased the threshold at which we consider legal recovery by bankruptcy to \$20,000, compared with the regulatory limit of \$5,000. It is important to note that we only consider any kind of legal action as a last resort, when it has been proven through a comprehensive investigation process that a customer has the capacity to pay but has been unwilling to engage with us and agree an affordable repayment arrangement.

Even when legal proceedings have commenced, our Customer Assist Team remains available to the customer, so that we can agree a realistic payment solution and discontinue the legal process at any stage. The number of times we take bankruptcy action is a tiny fraction of the active accounts that we manage with our customers (less than one in a thousand), and we anticipate this will significantly decrease in the current financial year as a result of increasing our threshold.

A couple of weeks ago I was privileged to attend a Financial Counsellors Australia conference in Perth, along with four colleagues from CLH. I was there to listen and learn, to see first hand

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the excellent work being done by this group of dedicated and, frankly overworked and underfunded, advisers, and to start a process of strengthening our relationships with the financial counselling community across Australia.

Financial counsellors do a fabulous job in talking to our customers about their financial circumstances, and looking holistically for the right solutions for people in real hardship. While in Perth we met with Fiona Guthrie, the CEO of FCA Australia and colleagues from FCA WA. They gave us further constructive feedback, and we shared with them some of the changes we're making to redouble our commitment to our customers and to their counsellors. In addition to the changes we've made to our bankruptcy procedures, we have created a dedicated stakeholder engagement team who will liaise with financial counsellors full-time. That team of ten will streamline our contact with counsellors by means of a dedicated telephone hotline, improved identification checks using each counsellor's registration number, and a presumption of trust towards the information they give us in relation to customers, thus cutting red tape for the counsellors.

In addition, and following my similar experience on projects in the UK and Europe, my fellow Directors have supported me to become the Board sponsor for an organisation-wide review of customer advocacy and improved customer experience.

I would prefer to under-promise and over-deliver at this stage, but I can assure you that we have some exciting plans, and we are already putting together an action plan to redouble our efforts to do the right thing by our customers, to treat them fairly, and to review our whole collection process from recruitment and induction, through training, coaching and supervision, right down to more enlightened conversations with customers, offering them an industry-leading experience with solutions individually tailored to their own particular financial circumstances.

You'll be hearing more about this as we take it forward, and of course we will continue to liaise with the FCA, the Financial Basics Foundation (which Collection House formed 20 years ago) and a leading provider of customer care services we've engaged, to ensure we set, and live up to, the highest community standards in the sector. Collection House has demonstrated its capacity to be an industry leader in a variety of areas of our business. I am confident that we can become the industry leader in customer experience and set an example of how businesses

in our sector can deliver excellent financial performance while helping our customers through a framework of empathy, care and integrity.

In addition, we believe that demonstrating genuine care for our customers will only serve to further strengthen our client relationships for both managed and purchased debt.

### **Director elections and Remuneration report**

Ensuring the appropriate balance of skills, experience, diversity and independence was a key focus of your Board last year and I'm pleased to report that over the last 12 months, our two newest members, Sandra Birkenleigh and Catherine McDowell, have garnered a strong understanding of our industry and have made a very positive contribution to the Board's deliberations and strategy.

Today Michael Knox is standing for re-election and I can vouch for the fact that he remains a highly valued member of the Board, for his sage advice throughout the year, but most particularly for his econometric contribution to our valuation models and forecasting, and I wholeheartedly recommend his re-election to you all.

Later in the meeting you will have the opportunity to ask questions and vote on the Remuneration Report. During the 2018/19 financial year, we have looked at our remuneration structure internally and undertook a benchmarking process with an external and independent firm. This is to ensure our remuneration can be appropriately tested and benchmarked against similar sized ASX-listed companies operating in similar industries. We have also been extremely cognisant of the recent feedback from the Banking Royal Commission around remuneration structure and the impact it has on organisational values and culture and the flow-on effect to customer service.

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## Conclusion

In conclusion, I would like to thank you, our shareholders, for your support again this year. I'd also like to thank all my colleagues at Collection House. Their job is not an easy one and their determination, resilience and empathy do them great credit. I would also like to thank my fellow Directors for their vital contributions to both the Board discussions, and when called upon, for advice outside the formal framework of Board meetings.

Sandra has been the perfect Chair for our Audit and Risk Committee, bringing discipline and massive insight to every Board meeting, while Catherine has done a great job as Chair of the Remuneration and Nominations Committee, as we've revamped our remuneration, incentive schemes and culture this year.

As our CEO, Anthony has been active and motivated to innovate and challenge the status quo, which has been particularly focused on the areas of technology and innovation.

Anthony became a Director of the Australian Collectors and Debt Buyers Association this week, and we both look forward to engaging with the ACDDBA to bring industry stakeholders together. He continues to be ably supported by an excellent senior leadership team and we are already benefiting as a business from the capabilities that Doug McAlpine is bringing to the organisation as CFO.

Your Board is confident that the Company is well placed to grow in an operating environment that indicates stable volume of purchased debt, but perhaps against a backdrop of a slight lessening of competitive tension. Our major financial services clients continue to grapple with the ever-increasing regulatory and compliance obligations applicable to their sector. In our view, only those organisations in the credit management sector with the systems, processes and people committed to ensuring the very highest levels of governance and organisational conduct will succeed. We are on a journey that we firmly believe will yield better outcomes for our customers, our clients, the wider stakeholder community, and you our shareholders.

On a personal note, I was delighted to gain Australian residency earlier this year, and am now spending significant time here in the business as we pursue further transformation in the challenging yet exciting times ahead.

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I now invite Anthony to give his presentation after which we will conduct the formal business of the meeting.

ENDS

*For more information please contact:*

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