



**FSA Group**  
**AGM Presentation**  
**22 November 2019**

# Agenda

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- Overview
- Summary of the year “Challenges, change and progress”
- Segments
  - Services
  - Consumer Lending
- Financials
- Strategy and Outlook



# Overview

# Overview



**Australia's largest provider of debt solutions;  
direct lender to individuals**

## What we do

For over 19 years, FSA has helped thousands of Australians take control of their debt. Our large and experienced team of professionals offers a range of debt solutions and direct lending services, which we tailor to suit individual circumstances and to achieve successful outcomes for our clients.

## Segments

Operates across 2 segments:

- Services
- Consumer Lending

# Overview



## Australia's largest provider of debt solutions; direct lender to individuals & businesses

<b>2000</b>	Founded with director loans of \$50,000. Initial offering debt agreements then PIA's and bankruptcy, then home loan brokering
<b>2002</b>	Back door listing raised \$600,000 for shareholder spread
<b>2006</b>	Commenced home loan lending
<b>2009</b>	Raised \$5.2m to underpin home loan pools
<b>2015</b>	Commenced car loan lending
<b>2019</b>	PAT \$14.4m, Shareholder equity \$51m, ROE 30%
<b>2011 to 2019</b>	\$65m returned to shareholders in buybacks and dividends
<b>2002 to 2019</b>	Shareholder return of 14% pa assuming dividends are re-invested



Summary of the year  
“Challenges, change and  
progress”

# Challenges, change and progress

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## Royal Commission

- As a consequence of the Royal Commission, banks and other financial institutions adopted a softer approach to debt collection.
- AFSA reported that bankruptcies for 2019 were at their lowest level in 24 years. These figures clearly reflect the outcome of a more benign collection environment.
- This temporarily slowed demand for our services in the second half of the 2019 financial year.
- Between July and November, the downward trend has stabilised and is reversing.

# Challenges, change and progress

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## Amendments to the Bankruptcy Act

- The amendments, which took effect from 27 June 2019, limit the time to repay debt under a debt agreement to:
  - 3 years for non-home owners and
  - 5 years for home owners.
- These amendments were not foreseen.
- As predicted non-home owners have been adversely affected.
- In July 2019 we formally launched our new service, an informal arrangement to assist non-home owners with their debt.



# Challenges, change and progress

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## Amendments to the Bankruptcy Act (continued)

- The launch has been successful with positive feedback from clients and creditors. From July to November we have assisted over 500 clients with informal arrangements.
- As previously stated, we do not see the amendments as having a material impact on the number of clients we are able to assist or the long term financial performance of FSA.

## Consumer Lending growth strategy

- We allocated key management resources to develop a long term growth strategy for our Consumer Lending segment.



# Services

# Services



## Informal Arrangements and Debt Agreements

## PIAs and Bankruptcy

FSA offers a range of services to assist clients wishing to enter into a payment arrangement with their creditors. These services include informal arrangements, debt agreements, personal insolvency agreements and bankruptcy.

# Services - Clients



<b>Informals and Debt Agreements</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>% Change</b>
New clients	5,395	5,797	4,573	-21%
Clients under administration	20,194	21,885	21,725	-1%
Debt managed	\$366m	\$398m	\$379m	-5%
Dividends paid	\$81m	\$82m	\$88m	+7%

<b>PIA's and Bankruptcy</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>% Change</b>
New clients	354	415	436	+5%
Clients under administration	1,404	1,253	1,290	+3%



# Consumer Lending

# Consumer Lending



## Home Loans

FSA offers home loans to assist clients with property who wish to consolidate their debt.

## Personal Loans

FSA offers personal loans to assist clients with the purchase of a motor vehicle.

# Consumer Lending - Loan Pools



<b>Loan Pool Data</b>	<b>Home Loans</b>	<b>Personal Loans</b>
Weighted average loan size	\$356,370	\$22,261
Security type	Residential home	Motor vehicle
Weighted average loan to valuation ratio	67%	91%
Variable or fixed rate	Variable	Fixed
Geographical spread	All states	All states

# Consumer Lending - Loan Pools



<b>Loan Pools</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>% Change</b>
Home loans	\$306m	\$360m	\$382m	+6%
Personal loans	\$35m	\$48m	\$59m	+25%
<b>Total</b>	<b>\$342m</b>	<b>\$408m</b>	<b>\$441m</b>	<b>+8%</b>

<b>Arrears &gt; 30 day</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
Home loans	2.21%	1.40%	1.42%
Personal loans	1.56%	1.55%	3.36%

<b>Losses</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
Home loans	\$ 340,465	\$ 501,494	\$ 278,405
Personal loans	\$ 199,594	\$ 263,251	\$ 564,022



# Consumer Lending - Funding



<b>Funding</b>	<b>Facility Type</b>	<b>Provider</b>	<b>Limit</b>	<b>Availability End Date</b>	<b>Maturity Date</b>
Home Loans	Non-recourse senior	Westpac	\$350m	Jul-21	Oct-21
	Non-recourse senior	Westpac	\$25m	Jul-21	Oct-21
	Non-recourse mezzanine	Institutional	\$30m	Jul-21	Oct-21
Personal Loans	Limited recourse senior	Westpac	\$75m	Apr-21	Apr-23



# Financials

# PBT by segment



Profit before tax by segment		FY2018	FY2019	% Change
Services		\$10.2m	\$11.6m	+13%
Consumer Lending	Home Loans	\$6.0m	\$5.9m	-1%
	Personal Loans	\$3.5m	\$5.3m	+51%
Other/unallocated		(\$0.1m)	(\$0.7m)	
<b>Profit before tax</b>		<b>\$19.7m</b>	<b>\$22.2m</b>	<b>+13%</b>

## Other/unallocated

Includes the before tax mark to market unrealised gain of \$0.2m in 2018 and unrealised loss of \$0.6m in 2019 on our 5 year interest rate swap agreements.

# Group financials



Financial Overview	FY2018	FY2019	% Change
Operating income	\$66.2m	\$69.7m	+5%
Profit before tax	\$19.7m	\$22.2m	+13%
Profit after tax attributable to members	\$12.6m	\$14.4m	+14%
EPS basic	10.08c	11.52c	+14%
Net cash inflow from operating activities	\$14.5m	\$17.1m	+18%
Dividend/share	7c	5c	-29%
Shareholder equity attributable to members	\$44.0m	\$51.0m	+16%
Return on Equity	30%	30%	

## PBT, PAT, EPS

Impacted by the before tax mark to market unrealised gain of \$0.2m in 2018 and unrealised loss of \$0.6m in 2019 on our 5 year interest rate swap agreements.

# What's underpinning operating cash flow



## Long-term annuity income

	FY2017	FY2018	FY2019	% Change
Net cash inflow from operating activities	\$11.1m	\$14.5m	\$17.1m	+18%

		No of clients / loan pool size	Average client life in years
<b>Services</b>	- Informals/ Debt Agreements	21,725	4.5 to 5.5
	- PIA/Bankruptcy	1,290	3
<b>Consumer Lending</b>	- Home Loans	\$382m	3 to 4
	- Personal Loans	\$59m	4 to 5



# Strategy and Outlook

# Strategy and Outlook Agenda

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- Services
- Consumer Lending – Home Loans
- Consumer Lending – Personal Loans
- Earnings and Capital Management



## Strategy

We now offer a debt agreement (DA) and an informal arrangement (IA).

The IA offering is more automated than a DA.

During FY2020:

1. Continue to improve our IA offering, based on client and creditor feedback;
2. Implement the IA offering across the entire team, with ongoing training and support;
3. Remove circa \$3m of annual cost, we are well advanced on this through automation and off-shoring; and
4. Focus on assisting an increasing number of clients across combined DAs and now IAs:
  - FY2017 to 2019 average 438 clients per month (100% DAs)
  - FY2019 average 381 clients per month (100% DAs)
  - FY2020 average to date 386 clients per month (70% DAs)



# Services (continued)



## Strategy

Based on current call volumes/spend we believe the IA offering, once points 1 and 2 are actioned, will see us assist on average 450 to 500 clients per month.

The above strategy will allow us to **hold** the Services PBT at historical levels.

## As previously stated

We do not see the amendments as having a material impact on the number of clients we are able to assist or the long term financial performance of FSA.

# Consumer Lending – Home Loans



## Growth Strategy

Currently exploring options to:

- Enlarge our management team ;
- Further develop our product offering; and
- Expand our external origination and distribution channels,

in order to grow our loan pool and PBT.

## Funding/RMBS

To diversify our funding and de-risk our business we plan to utilise the debt capital markets. We are exploring a \$150m to \$200m RMBS private bond issue.

# Consumer Lending – Personal Loans



<b>Growth Strategy</b>	Increasing our sales team during FY2020.			
<b>Loan pool/PBT</b>	By FY2021 aiming to grow our: <ul style="list-style-type: none"> <li>- Loan pool from \$59m to around \$100m</li> <li>- PBT from \$5.3m to around \$10.5m.</li> </ul>			
<b>Funding/ Mezzanine</b>	We are planning a \$20m mezzanine facility to support the \$75m Westpac senior facility, this will free up capital and improve ROE.			
	<u>\$100m Pool without Mezzanine</u>		<u>\$100m Pool with Mezzanine</u>	
	Westpac	\$70m	Westpac	\$70m
	Mezzanine	-	Mezzanine	\$20m
	FSA	\$30m	FSA	\$10m

# Earnings and Capital Management



<b>Earnings</b>	FY2020 expect earnings growth of 5% to 15%
<b>Capital Management</b>	FY2020 expect our full year dividend to be 5c per share with the balance of earnings to be: <ul style="list-style-type: none"><li>- Re-invested to support the growing loan pools; and</li><li>- Used for an on market share buyback</li></ul>
<b>On market share buy back</b>	The board is of the current opinion that our shares are trading at a price which represents a material discount to intrinsic value

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