

# HY20 Results Presentation

For the six months ending  
30 September 2019

**Turners.**  
Automotive Group



# Agenda

- 1. Results summary**
- 2. Business update**
- 3. Financial results**
- 4. Segment results**
- 5. Summary and Q&A**

# Results Summary



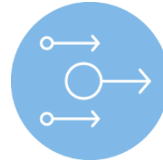
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# HY20 Results overview



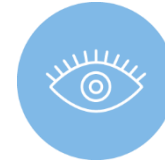
## Financials

- Focus on organic growth in underlying earnings
- Underlying NPBT+11% to \$14. 8m
- NPBT down 12% to \$14.8m (HY19 NPBT of \$16.8m includes gain on sale of property of \$3.5m)
- Revenue \$171m +1%
- Earnings per share 12.4cps -18% (due to gain on sale for property in HY19)



## Operations

- **Auto retail:** Improving retail sales leading to market share increase partially offset market decline
- **Finance:** Successful de-risking of Oxford
- **Insurance:** MBI Claims ratio improved to 68%
- **Credit:** 22% increase in NZ Corporate debt referred

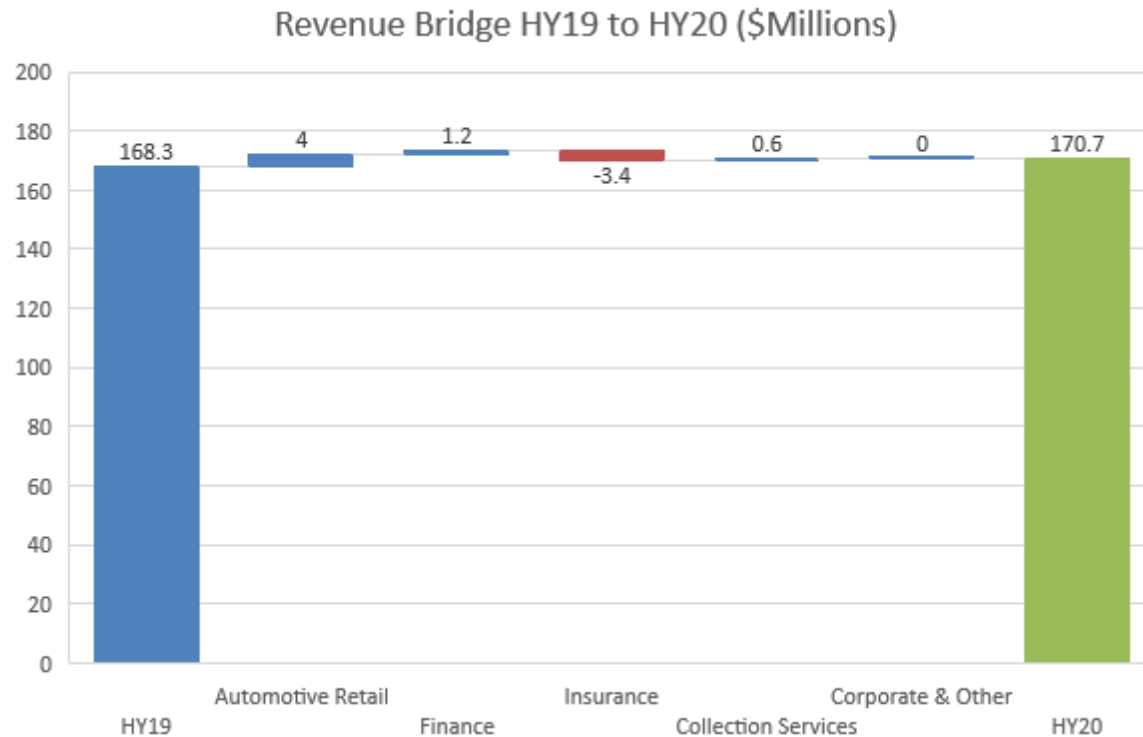


## Growth

- Continued retail optimization of Auto Retail footprint into new markets + optimizing existing sites
- Strong system integration strategy in finance and insurance
- Insurance distribution broadening
- Planned Carly NZ launch in Q1 CY20
- Continued investment in 3D's of digital, data and disruption

# HY19: HY20 Revenue bridge

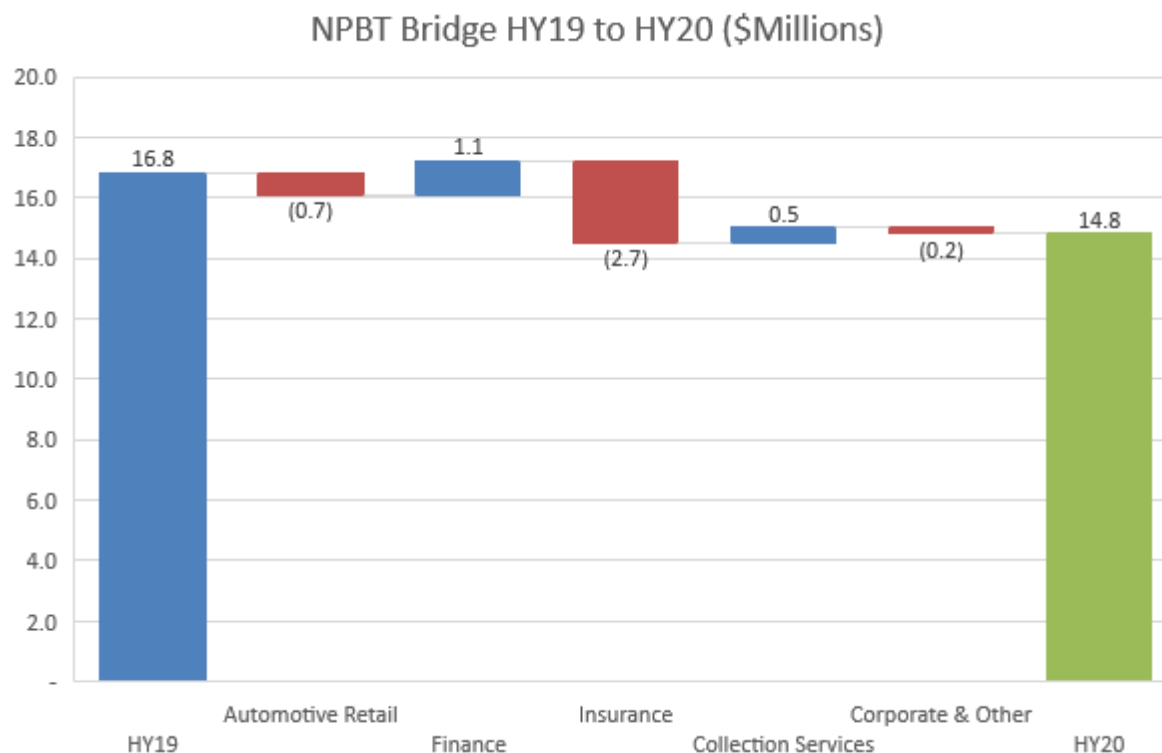
Revenue increased from \$168m to \$171m



- Auto Retail increase from higher unit sales of “owned” stock (up 6% YoY)
- Finance revenues have grown as a result of directing Turners origination into Oxford
- Insurance reflects property gain in HY19 of \$3.0m, fewer policies sold as higher risk vehicles re-priced and fewer used cars sold in the market
- EC Credit revenue increased off improved commissions from higher corporate debt load in NZ

# HY19: HY20 Net profit before tax (NPBT) bridge

NPBT decreased from \$16.8m to \$14.8m



- Auto Retail result affected by fewer consignment vehicles sold in HY20, and drop in used import margins.
- Finance driven by writing higher quality new business and the resulting improved arrears performance
- Insurance result from HY19 includes \$3.0m one –off gain from property sale. Good gains in claims ratios have offset reduced policy sales
- EC Credit improvement driven by better cost control and commissions from increased debt load from corporate NZ clients

# Reconciliation: NPBT to underlying NPBT

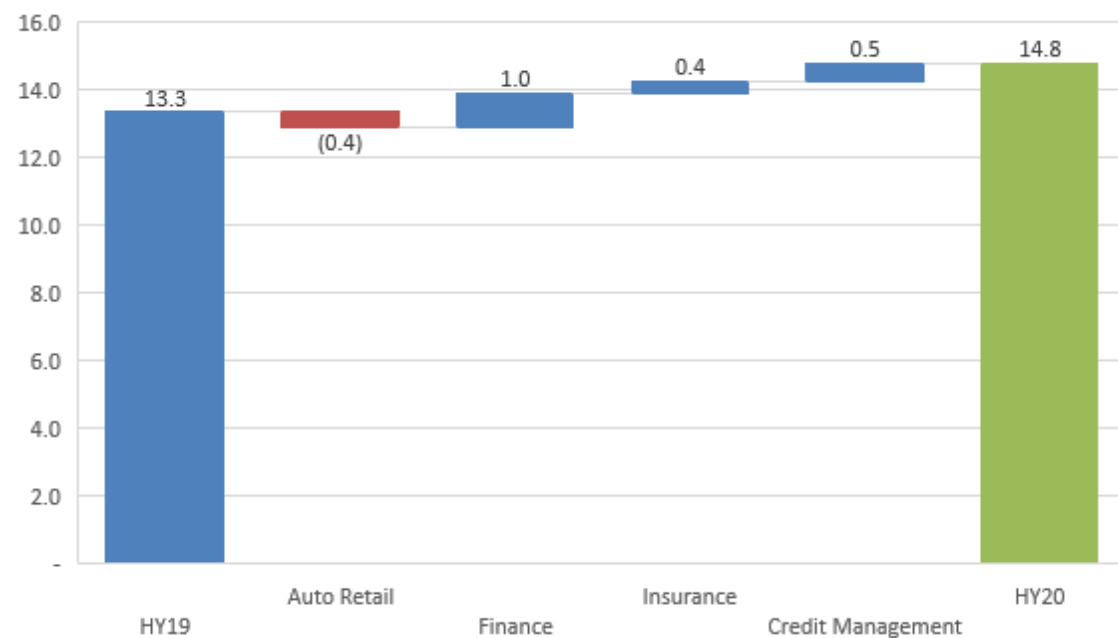
\$Millions	HY20	HY19	Var
<b>Profit before tax actual</b>	<b>14.8</b>	<b>16.8</b>	<b>(12%)</b>
Oxford strategic review costs	(0.2)	-	
IFRS 16 Lease Accounting changes	0.2	-	
Sale of property	-	3.5	
<b>Underlying operating result</b>	<b>14.8</b>	<b>13.3</b>	<b>11%</b>

- Plan for FY20 has been on growing earnings organically
- Property gain on sale of \$3.5m in FY19 relates to the sale of 133 Roscommon Road (\$3.0m Insurance + \$0.5m in Auto Retail)
- Legal and Advisor costs relate to strategic review process for Oxford Finance

# HY19: HY20 Underlying NPBT bridge

Underlying PBT increased from \$13.3m to \$14.8m

## Underlying Profit Before Tax



- Auto Retail reduction in import margins and lease consignment units in context of a softer market
- Finance improvement in arrears from growth in higher quality lending
- Insurance reduction in claims ratios
- EC Credit higher commissions from improved NZ corporate debt load



# Business Update

# Key themes

## #1 Continue to grow market share

Growth plans combined with used car market consolidation will see continued market share growth

## #2 Underlying used car market still robust

Used car markets have shown resilience through down cycles and long term low interest rate environments combined with old cars needing to be replaced will underpin demand

## #3 Oxford: successful de-risking

Focus on using new technology and credit data to originate & approve better quality loans

## #4 Investing in property

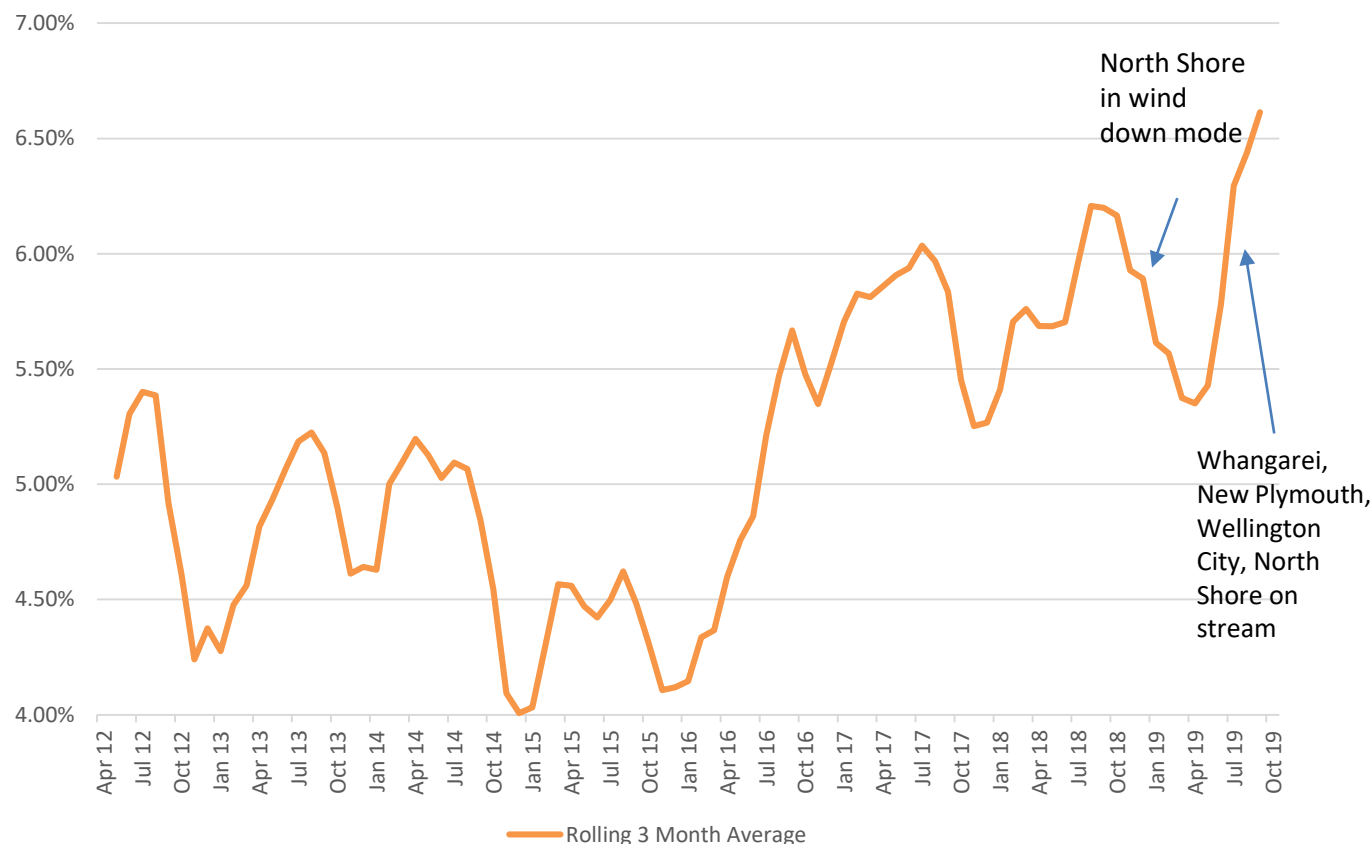
Delivered new North Shore site with 3 more branches in development due for opening in CY20, and 5 more branches in planning phase

## #5 Investing in technology

We will continue to make material investment in technology which gives us a market-leading advantage + innovative auto adjacent opportunities (eg Carly)

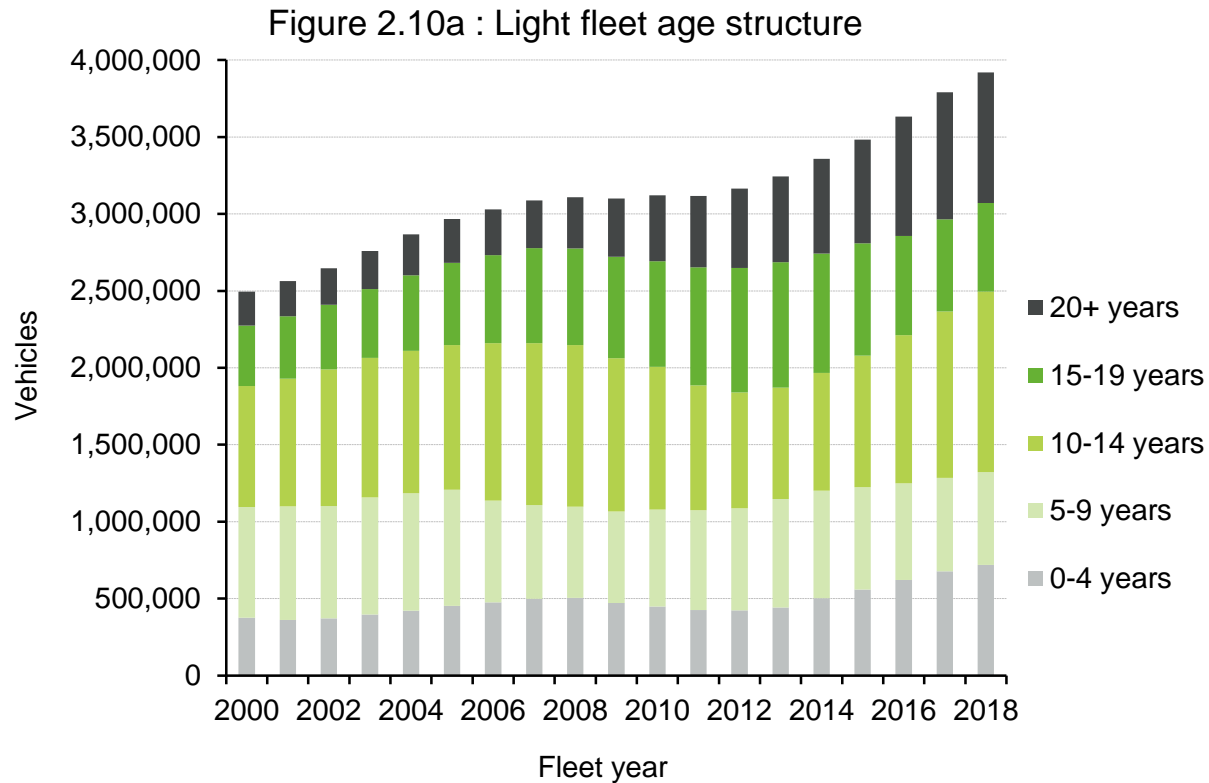
# #1- Continue to grow used car market share

Turners Retail Market Share (3 Month Rolling Average)



- Continue to optimise existing branch network for retail customers eg. Whangarei re-location, Dunedin Mar-20
- Still significant opportunity for some large consignment customers to direct more vehicles into retail channels
- Footprint expansion gets us closer to customers and delivers margin improvement
- Further market consolidation positive for Turners (6% drop in dealer numbers Sept 19 v Sept 18)
- Improving customer experience helping drive up market share - Average Net Promoter Score for HY20 at 68 (HY19 at 49)

## #2 - Underlying used car market still robust



NZ Vehicle Fleet Statistics - 2018

- Overall NZ used car market down 2.5% and sales of used imports down 6% as at Sept 19
- ESC feature mandatory on all new and used imported cars coming into NZ from Mar 2020
- Turners sales volumes are supported by consistent supply from consignment vendors eg Lease companies who have leased cars 3 years earlier
- Low interest rate environment combined with replacement of older cars should see the used car market remain resilient
- 20+ year age cohort continues to grow...now 2.5x level it was in 2008

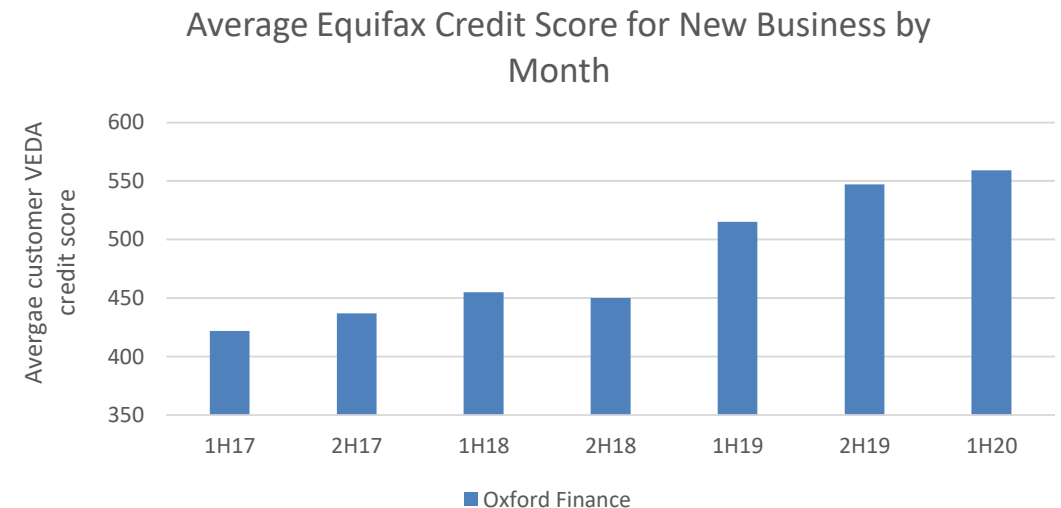
# #3 - Oxford: successful de-risking

Focus on better quality borrowers leading to improvement in arrears and performance

## Comparison of new consumer lending HY19 v HY20

Consumer Lending (\$ Millions)	HY20	HY19	Var
New business	49.5	46.2	3.3
Arrears	1.2	2.2	-1.0
31+ Arrears	0.25	0.84	-0.59
Arrears %	2.4%	4.8%	-2.4%
31+ Arrears %	0.5%	1.8%	-1.3%

## Improving Customer Credit Scores



## #4 - Investing in property

Focus on growing footprint into new markets and optimizing existing sites for better customer experience.

### Committed branches

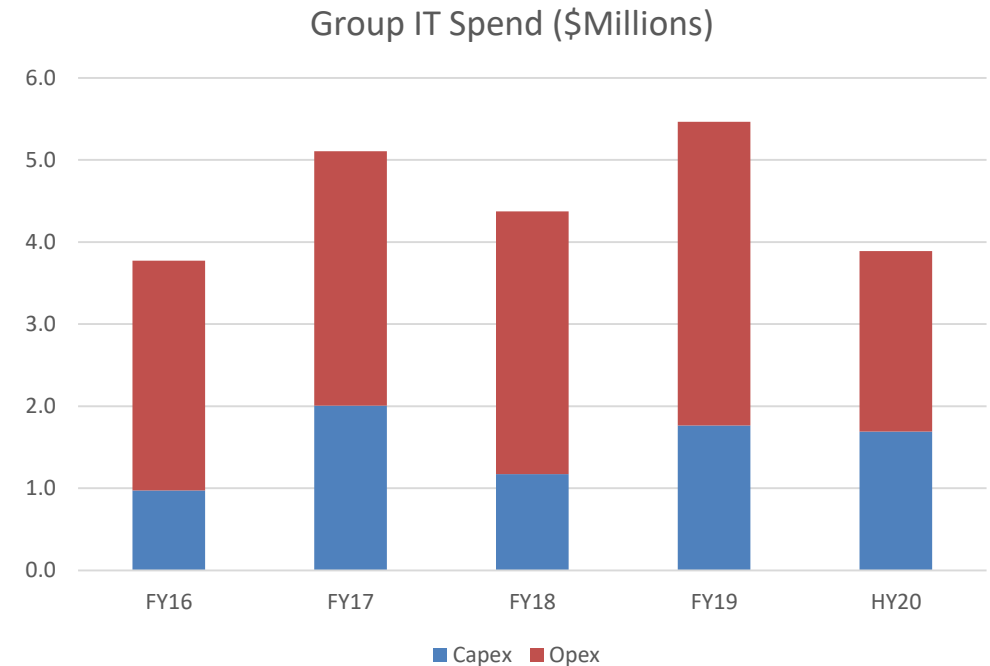
North Shore - AKL	Opened August 2019	August 2019	8,524m2
Dunedin	Re-opening larger format of Turners' Auto-Retail flagship store	March 2020	9,025m2
Westgate - AKL	Part of wider Auckland expansion	June 2020	8,500m2
Mt Richmond - AKL	Part of wider Auckland expansion	August 2020	10,300m2

### Other branches added as sites with acceptable profile and cost base are identified

Christchurch	Turners Auto-Retail expansion	2020	10,000m2
Pukekohe	Part of wider Auckland expansion	2021	10,000m2
Nelson	Part of the regional expansion strategy	2021	8,000m2
Rotorua	Part of the regional expansion strategy	2021	8,000m2
Timaru	Part of the regional expansion strategy	2021	8,000m2

## #5 - Investing in technology

- Committed to create competitive advantage from technology investments
- Technology team 29 FTE (Applications 16, Infrastructure / Operations 13)
- Early adopters of Agile, DevOps methodologies implemented FY19 (includes automated deployment of software releases)
- Key business areas with major gains include;
  - Operational and management reporting through dashboards and business intelligence
  - Significant process automation via operational mobile apps
  - Rapid delivery of systems to react to revenue opportunities, competitor activity, regulation changes, innovation
  - Development of APIs (computer interfaces for services and products) to position for growth



# Summary of our strategic plan (May 2019)

## **Our strategy is to...**

- Simplify the business
- Accelerate growth in a capital efficient way
- De-risk by focusing on our core business and strengths

## **This will enable us to...**

- Significantly increase market share in the core business of Auto retail and
- Participate in new and innovative auto adjacent opportunities

## **For our key stakeholders this means...**

- Sharpen our focus on meeting customers needs
- Improving the efficiency of our business
- Reducing cyclical swings in our business, especially around credit
- Increasing the returns we deliver to our shareholders



# Progress on Strategic plan



## Auto retail

- North Shore development complete
- Digital marketing spend increasing
- NPS tracking up
- Data project initiated on vehicle profitability



## Insurance

- Build distribution through partnerships and API development
- Prioritise auto products
- Use technology to automate claims process



## Finance

- Oxford strategic review completed
- Continue to develop competitive advantage with AutoApp
- Focus on high quality origination



## Credit

- Integration to SME accounting platforms
- Build on debtor scorecard
- Use technology to drive efficiencies in collections process



## Adjacent opportunities

- Launch plans under development for Carly NZ
- Continue to investigate, assess and invest in other opportunities

# Financial Results

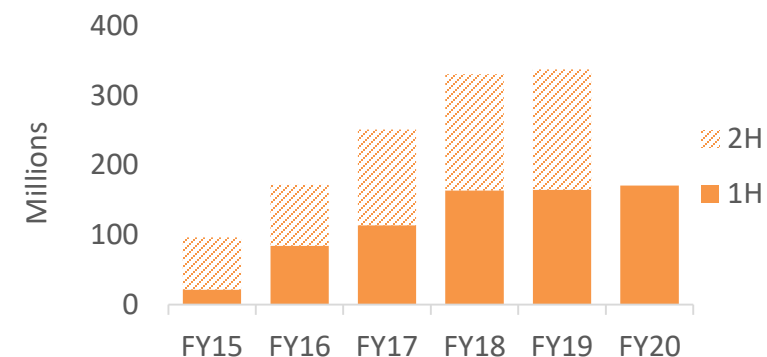
The logo for Turners Automotive Group is contained within a white circle. It features the word "Turners." in a bold, dark blue sans-serif font, with a small blue dot at the end of the period. Below it, the words "Automotive Group" are written in a smaller, lighter blue sans-serif font.

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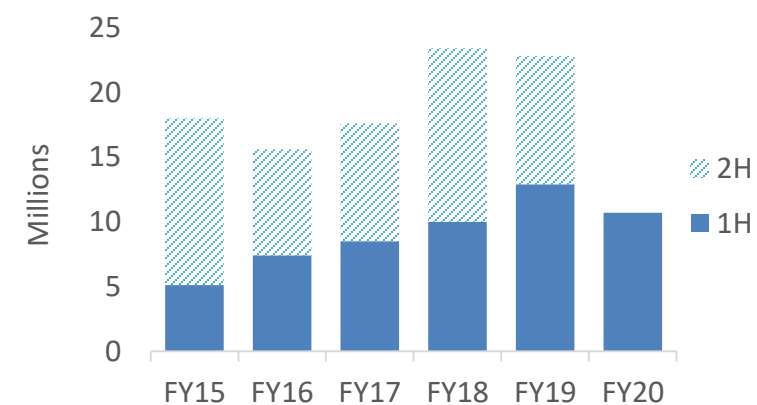
# HY20 Results snapshot

Revenue <b>\$170.7m +1%</b>	Shareholders' Equity <b>\$220m as at Sept 19</b>
Underlying Net Profit Before Tax <b>\$14.8m +11%</b>	Q2 Dividend 4.0 cps <b>Projected FY Div 17.0cps</b>
Net Profit Before Tax <b>\$14.8m -12%</b>	H1 Earnings Per Share <b>12.4cps</b>
Net Profit After Tax <b>\$10.7m -17%</b>	<b>(FY19 15.2cps, -18%)</b>

Revenue

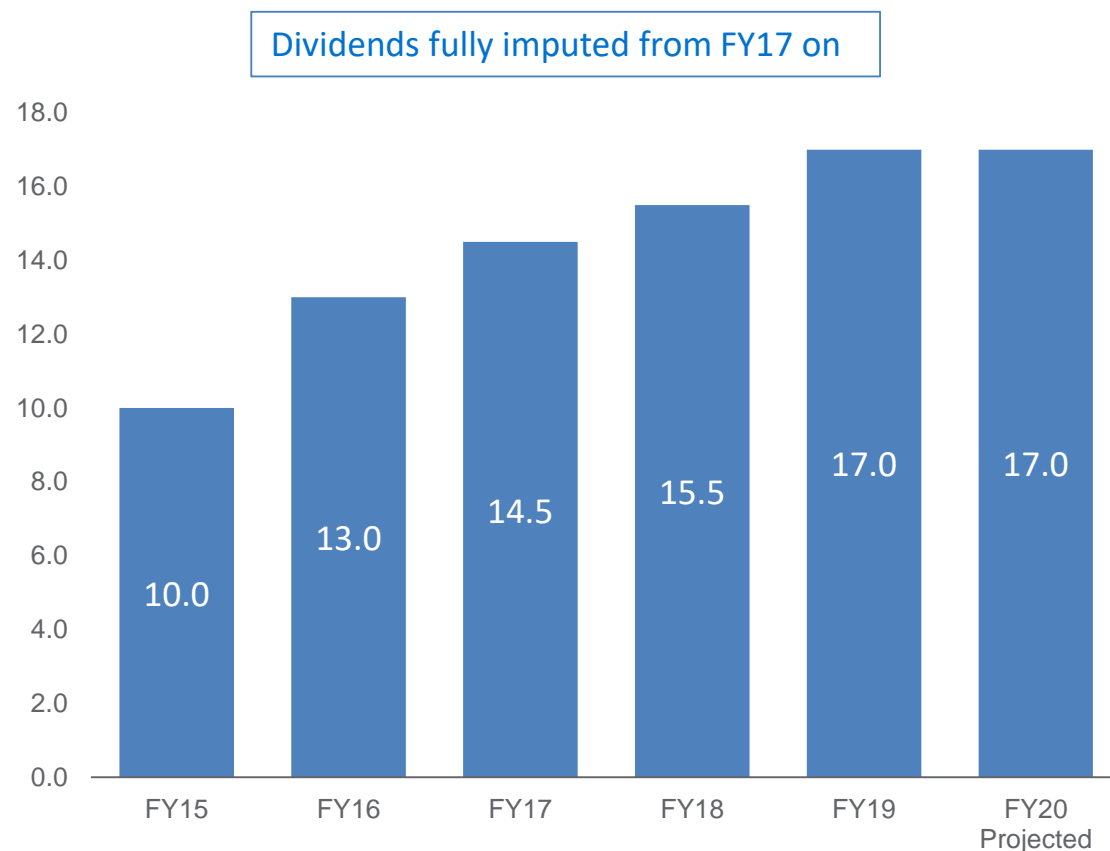


Net profit after tax



# Capital Management and Dividends

## Earnings and Dividend per Share (Cents)



- Dividend Policy Change in May 2019: Increase in pay out ratio to 60% to 70% of NPAT
- 4.0m shares purchased during Share Buy Back programme (Dec 18 to Sept 19) reducing issued shares by 4.5% at an average price of \$2.32
- Projected FY20 fully imputed quarterly dividends
  - Q1 @ 4.0c per share – paid Oct-19
  - Q2 @ 4.0c per share – payable Jan-20
  - Q3 @ 4.0c per share – payable Apr-20
  - Q4 @ 5.0c per share – payable Jul-20
- Gross dividend yield of 9.4% at indicative price of \$2.53 (includes imputation credits)

# Balance sheet

\$Millions	HY20	HY19
Cash and cash equivalents	14.6	24.1
Financial assets at fair value	63.4	55.3
Inventory	36.4	42.9
Finance receivables	285.7	289.1
Property, plant and equipment	52.6	35.1
Other Assets	37.9	39.9
Right of use asset	26.8	
Intangible assets	166.6	170.8
<b>Total Assets</b>	<b>684.0</b>	<b>657.2</b>
Borrowings	319.6	330.3
Other payables	34.9	31.8
Deferred tax	11.1	17.3
Insurance contract liabilities	51.9	49.9
Lease liabilities	34.6	
Other Liabilities	11.8	11.5
<b>Total Liabilities</b>	<b>463.9</b>	<b>440.8</b>

- Reduction in cash balances due to investment of insurance reserves into longer dated term deposits
- Inventory value managed down in Auto retail with focus on faster turn
- Change in Finance Receivables reflects growth in Oxford offset by rundown in MTF non-recourse ledger
- Property, plant and equipment increase due to development of new sites in Whangarei, North Shore and Mt Richmond purchase.
- Right of Use Asset and associated Lease Liabilities arise from adoption of IFRS-16

# Funding mix

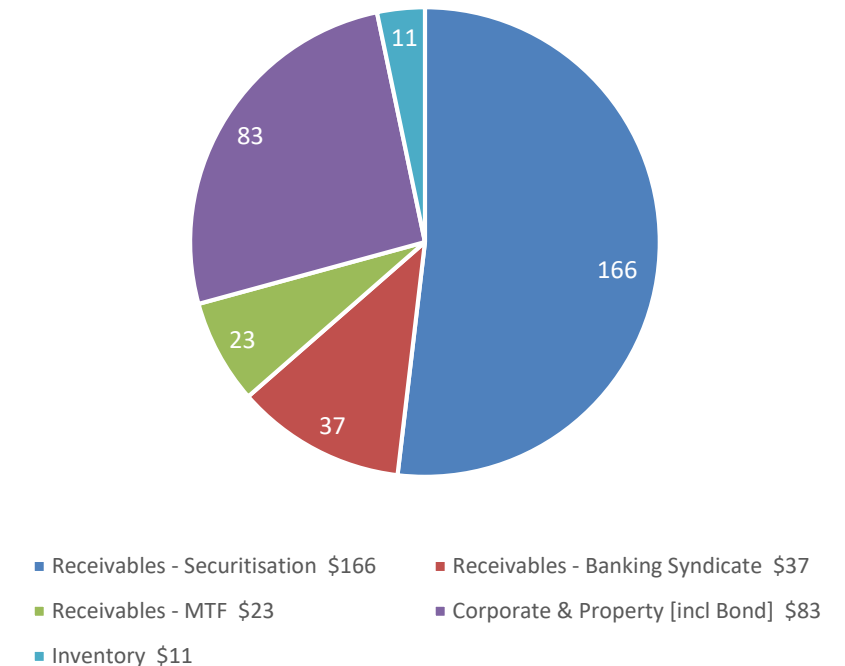
## Borrowings

\$Millions	Limit	Drawn	Undrawn
Receivables – Securitisation (BNZ)	184	166	18
Receivables – Banking Syndicate (ASB/BNZ)	60	37	23
Receivables – MTF	23	23	-
Corporate & Property [incl Bond]	95	83	12
Inventory (ASB)	30	11	19
<b>Totals</b>	<b>392</b>	<b>320</b>	<b>72</b>

- Increase in Securitisation Warehouse reflects Turners Cars origination directed into Oxford and away from MTF
- Securitisation funding facility limit at \$200m (including capital contribution from TRA), expect to extend this in Q1 CY20

## Borrowings by Utilisation (\$Millions)

As at 30 Sept 2019



# Segment Results



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## HY20 by segment

\$Millions	Automotive Retail		Finance		Insurance		Credit	
Revenue	115.9	4%	22.8	6%	22.2	(13%)	9.9	7%
Profit	7.3	(8%)	6.5	20%	2.6	(51%)	3.6	17%
Underlying profit	7.1	(5%)	6.4	19%	2.6	14%	3.6	17%



# HY20 by segment



## Auto Retail

- Growing retail market share
- Business becoming more inventory efficient
- Continued optimisation for retail



## Finance

- Finance continued focus on targeting high quality borrowers
- Continue to make investments in digital and system integration



## Insurance

- Good progress in building out distribution
- Keep improving underwriting standards to reduce risk



## Credit Management

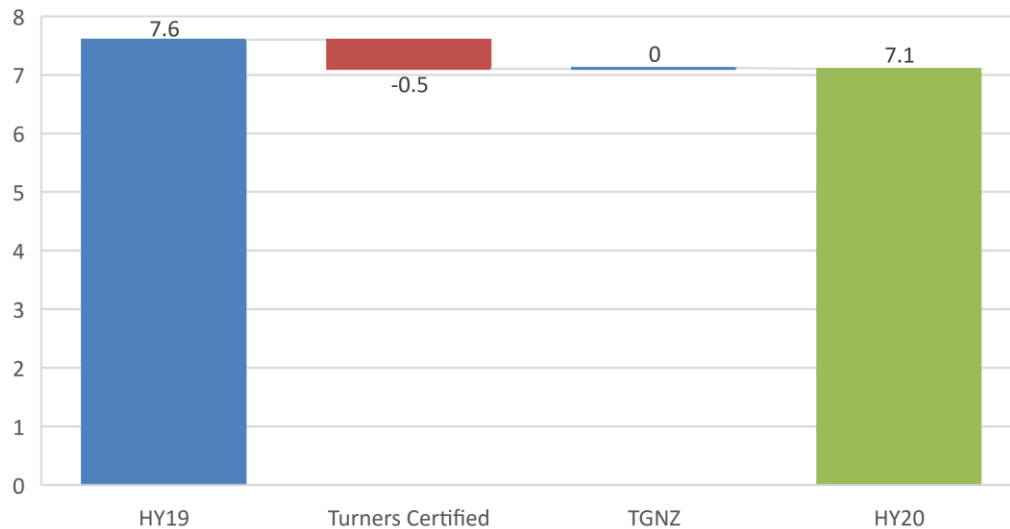
- Significant share increase in NZ Corporate debt collection
- SME focus: integrated with key systems (eg. Xero / MYOB)



# Automotive retail

Revenue 115.9m +4%, Segment Profit \$7.3m -8%  
Underlying Segment Profit \$7.1m -5%

## Auto Retail Breakdown HY19 to HY20 (\$Millions)

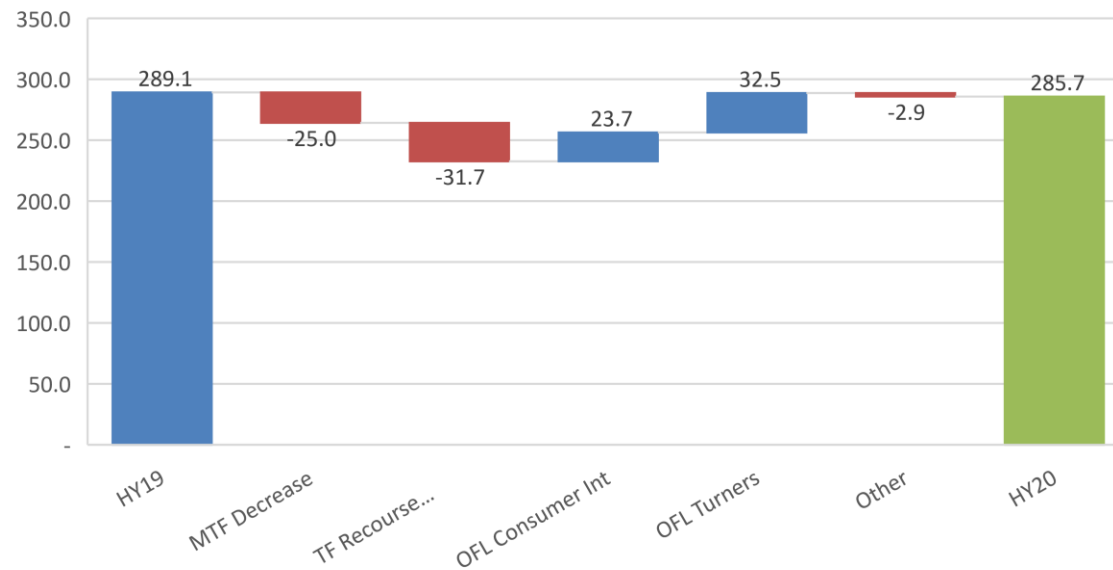


- BuyNow (retail sales) up 1% YoY from new branches (New Plymouth and Whangarei offset by temporary closure of North Shore)
- Inventory value reduced by 15% to \$36.5m (Sept 18 - \$42.9)
- Unit sales of owned stock up 6%, however margin per unit down 11%, locally sourced margins are up but import margins continue to track down due to supply chain costs and adverse currency movements.
- Less consignment stock from lease vendors as we cycled off a strong return period in HY19 (1,000 units less in HY20).
- \$500k of cost reduction initiatives implemented in Turners Certified in H1 FY20
- Damaged vehicle units up 3% in FY20
- Average Net Promoter Score (customer experience measure) for HY20 at 68 (HY19 at 49)
- Gold Winner of NZ Quality Service Awards Used Car Dealership category 2019 and 2020

# Finance

Revenue \$22.8m +6%, Segment Profit \$6.5m +20%  
Underlying Segment Profit \$6.4m +19%

## HY19 to HY20 Receivables Bridge



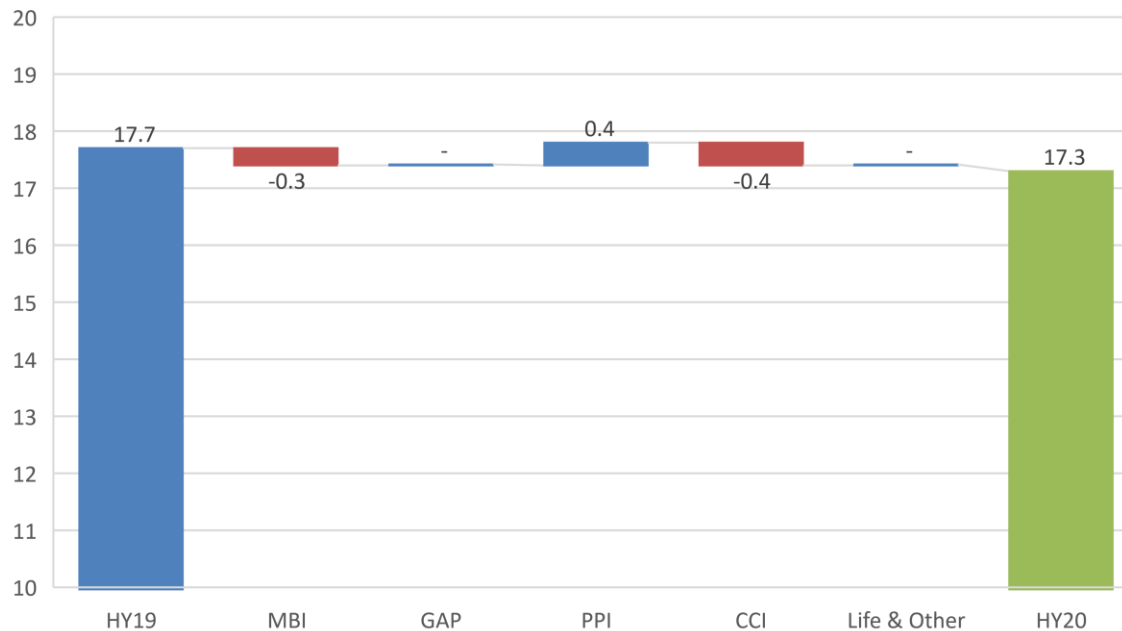
MTF – Motor Trade Finance  
OFL – Oxford Finance Limited  
TF – Turners Finance

- Improvement in quality of new business written continues
- 3 – tier risk pricing model working well with 25% of new business at premium tier, better risk for reward model.
- Turners Cars lending starting to ramp up well \$24m in new business H1YTD
- No. of intermediaries giving 5+ deals per month has increased by 100% YoY, and have deactivated 17 dealers originating lower quality loans
- Consumer arrears percentage improved from 9% (HY19) to 8.2% (HY20)
- Consumer loans originated in HY20 has a total arrears percentage of 2.4%, which is a 50% improvement compared to HY19

# Insurance

Revenue \$22.2m -13%, Segment Profit \$2.6m -51%  
Underlying Segment Profit \$2.6m +14%

Net Earned Premium HY19 vs HY20 (\$m)



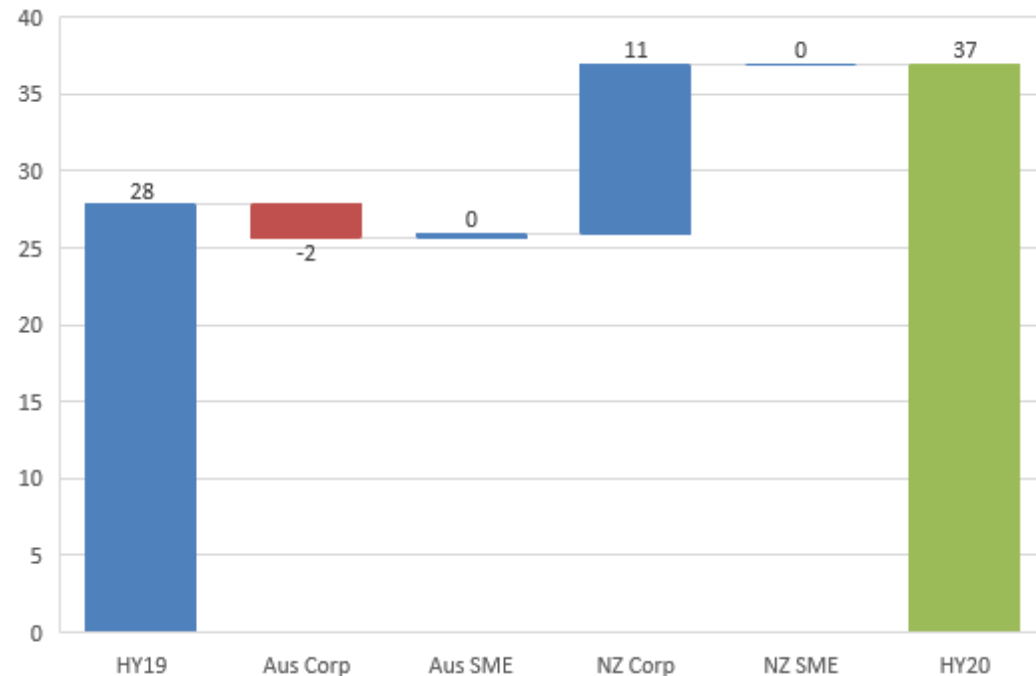
CCI Product has discontinued

- Combined loss ratio 60% (H1 FY19: 63%), MBI loss ratio at 68% (H1 FY19 at 72%).
- All dealers transitioned to new retail policy generation system which has provided further opportunity to manage portfolio risk.
- Continued review of dealers portfolio performance for risk pricing and review of incentives and rebates.
- Culture and conduct review completed
- General Gross Written Premium down 6% to \$17.5m as a result of market conditions and focusing on lower risk portfolios and vehicles.
- MARAC distribution agreement signed resulting in 20% increase to dealer network and \$2m additional annual GWP from Q4 FY20
- Prior year includes gain on sale from investment property of \$3.0m

# Credit management

Revenue \$9.9m +7% Segment Profit \$3.6m +17%  
Underlying Segment Profit \$3.6m +17%

**Debt Collected HY19 to HY20 (\$Millions)**



- Total debt load up 17% to \$133m, NZ corporate debt load up 22% to \$105m
- Commission earned from debt collected up 21% to \$4.5m.
- Xero and MYOB integration completed, 150+ customer connections expected to grow significantly
- Contact centre retention improved significantly



# Key focus for 2H20



## Auto Retail

Continue to optimise footprint for retail, deliver better digital and mobile customer experience, building data tools to understand demand, develop new sourcing opportunities.



## Finance

Continue pricing for risk, extend distribution through use of APIs and partnerships, automate more of the credit decision process



## Insurance

Increase distribution through APIs, launch new products through delivery of retail system development, optimise repair network.



## Credit Management

Australian corporate customer acquisition, MYOB / XERO integration, further enhance collections scorecard.



# Summary & Q&A



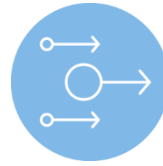
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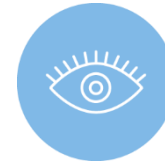
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# Outlook

- Continued focus on organic growth and growing auto retail market share
- Expecting used car industry to consolidate further over 2019/2020
- Impact of Electronic Stability Control as a mandatory feature for all imported vehicles from March 2020 will impact smaller dealers and very low priced vehicles
- Retail optimisation to continue
- Focus on quality and distribution in finance and insurance
- The Board is not expecting any significant one-off gains or losses in H2

FY20 net profit before tax guidance of \$28.0m to \$30.0m

# Questions



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- I. Uncertainties relating to government and regulatory policies;
- II. The occurrence of catastrophic events with a frequency or severity exceeding our estimates;
- III. The legal environment;
- IV. Loss of services of any of the company's officers;
- V. General economic conditions; and
- VI. The competitive environment in which the company, its subsidiaries and its customers operate; and other risks inherent in the company's industry

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