Company Announcement

31 March 2020

TURNERS MAINTAINS FY20 PROFIT GUIDANCE: FOCUS ON C-19 PLAN

Despite a heavily disrupted March, Turners still expect the FY20 result to be within previously stated guidance of $28-$30m net profit before tax. Prior to the emergence of COVID-19 the group was on track to report at the high end of its earlier market guidance.

Chief Executive Officer Todd Hunter says the group is well-positioned, and in the immediate term, its first priority is to support staff, customers, suppliers, and other stakeholders through the Covid-19 lock down. The Board and management have specific experience guiding Turners through the GFC and the expansion of the business in the years following. Leadership is proactively planning for a range of future scenarios, including the potential of an extended lock down and prolonged slowdown, with obvious attention being given to the cost base.

Key points:

- Turners still expects the FY20 result to be within previously stated guidance of $28-$30m net profit before tax.
- Turners expects adverse impacts on 1H21. It is too early to quantify these impacts. However, Turners had robust momentum in each of its businesses going into this situation and a solid financial position.
- The Board has deferred the company's Q3 dividend as a precautionary measure, which would normally have been paid around the end of April.
- The group continues to operate well within its bank covenants. Turners just confirmed an extension of its securitisation warehouse facility with BNZ to $250 million (previously $200m) and has unrestricted cash of $20m+ and further funding headroom if required. There are no renewals on debt until 2021.
- Turners benefits from being a purposefully diversified business, with different business cycles. For example, annuity revenues from finance and insurance help offset the short-term decline in the activity-based revenue businesses of auto retail and credit management.
- Three of the group's four businesses (Oxford Finance, DPL Insurance, EC Credit Control) are confirmed as "Essential Services" under the financial institutions classification and are largely operating remotely.
- Turners are working proactively with landlords to reduce rent payments over the time of the lock down which has largely been received positively by property owners. Government stimulus programs will also make a substantial difference. All opex and capex plans are being reviewed.
- As well as the clear risks, this new dynamic environment could offer opportunities for the group, given its leading position in the used vehicle ecosystem, the potential for rationalising of company fleets post-lockdown, and activity from customers reducing vehicle costs. EC Credit Control will prosper during this time given its counter cyclical features.

Focus on people and planning
Mr Hunter said that the group's immediate focus was continuing to support our customers, our team and their families, and various stakeholders through the immediate Level 4 period, whilst supporting the country's efforts to stave off the threat of pandemic. Our customer focus has been working with clients of Oxford Finance to find manageable solutions for their loan repayments over this difficult time.

As a leadership group we have been working tirelessly over the last few weeks to develop a robust plan that enables us to address the immediate challenges that COVID-19 represents, a big part of which has been shifting our employees where applicable to a work-from-home model, which is now fully activated. We are now focused on near-term challenges and broader resiliency issues during the virus-related shutdowns and the economic knock-on effects.

Turners is taking decisive and immediate action on significant cost savings and structural cost reductions, as well as seeking relief aided by government stimulus programs. Aided by government contributions, the group has committed to its teams that they will be paid 100% of their base salary over the 4-week initial COVID-19 lockdown period. Most staff will also take some annual leave over this time.

Concurrently we are in the process of developing a solid plan around getting 'back-to-business' as the virus evolves and the knock-on effects become clearer. This extends to re-imagining what the world post Covid-19 could potentially look like and how we position as a group for any such changes.

It is still too early to know exactly what the COVID-19 situation will mean for Turners, the automotive industry and the broader economy, but the group is adapting quickly to remain robust and to be in a position to realise any new opportunities that emerge from a disrupted market.

Funding in good shape
Ahead of an expected economic downturn, the group remains in a solid financial position, operating well within its bank covenants. Turners has just confirmed an extension of its securitisation warehouse facility with BNZ to $250 million (previous limit $200m) which supports the lending in Oxford Finance. Turners has unrestricted cash of $20m and further funding headroom if required. There are no renewals on debt until 2021. We would like to acknowledge the continued support our bankers BNZ and ASB.

Diversification and experience enhances organisational resilience
As a diversified business, Turners is fortunate that annuity revenues from finance and insurance help offset the short-term decline in the activity-based revenue businesses of auto retail and credit management. Turners are geographically spread throughout NZ, particularly in the Auto Retail business, which gives us confidence about our ability to operate if more localized lockdown scenarios occur.

We are fortunate to currently have senior executives at CEO and GM levels in each of our businesses, plus a number of current directors on our board, who not only guided these same companies through the GFC but have been actively involved in their profitable expansion since that time. Crucially for the group, each of our four businesses come into the current crisis in a far stronger position than pre-GFC, both in terms of operating strength and financial position.

Substantial investment in recent years into our technology platforms, and our large online audience provides an ability for the group to operate better than many of its competitors in a situation of partial or repeated lockdowns.

Auto Retail
While management expect the Auto Retail business to be significantly impacted during 1H21, its reliance on a domestic NZ customer base, and its focus on used cars (traditionally less discretionary than new cars) means that it has previously demonstrated relative resilience in a downturn. Further, Turners' greater business diversification and geographical spread, coupled with its stronger funding position should offer a comparative advantage versus the rest of the industry.

Turners expects its proportion of consignment sales is likely to grow in the period post the lockdown as certain businesses seek to downsize and liquidate vehicle fleets and consumers consider down grading or lower cost vehicles. Approximately 50% of cars sold currently are consignment vehicles and this is a part of our business we can easily scale.

Auto Retail is on hold during the lock down however we are awaiting approval from MBIE to deal with businesses and people who provide essential services to New Zealanders including key Government departments and DHBs.

The launch of Turners car subscription business Carly has been delayed until after any lock down period and will be re-programmed for launch after the environment stabilises. We expect both that the available supply of cars to the platform from 3rd party vendors will increase significantly, and that there will be greater consumer appetite for a more flexible, capital-lite alternative to owning a car.

Insurance, Finance and Credit

Turners insurance business is inherently strong with premiums for policies paid up front, and the likelihood of a more benign claims environment during any partial or full lockdown stages. DPL Insurance holds reserves of over $55m in cash or short term bank deposits.

The Finance business has focused on higher-quality lending in recent years and is now a more robust business that is well-placed post shut down. The average Veda score (credit risk metric) for new consumer loans written in the 11 months to Feb 20 is 568 compared to 534 in FY19. Finance can also rely on Turners own retail channel for new business.

Turners expects EC Credit Control to experience greater demand and growth in a counter cyclical environment, as it did after the GFC when there was a demand surge over the medium term. Commission income in the two years following the GFC increased significantly over pre-GFC levels, over 90% for the NZ market and 60% for the Australian market serviced. It is also worth highlighting that EC Credit Control has not purchased debt and only collects on a contingent basis meaning it is very cash generative.

Dividend and summary

The Board has as a precaution deferred the company's Q3 dividend which would normally have been paid around the end of April, and this will be reviewed at a future date as the outlook becomes clearer in line with the group's future planning.

The Board and Management own and directly control over 28% of the issued shares so there is a very high alignment of interests and strong sense of urgency to manage this situation well. Overall, despite some very real challenges arising from this situation, the group remains in a strong financial position, and is moving quickly not only to address the risks of a prolonged slowdown but also to position ourselves for opportunities to grow our business as NZ recovers.

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About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

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