



Credit Corp Group

# FY2020 Results Presentation

28 July 2020

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# Leadership in the credit-impaired consumer segment ...

## ANALYTICS & DISCIPLINE

### Australian / NZ debt buying

- Largest database
- History of pricing accuracy
- Purchasing levels vary inversely with pricing

### USA debt buying

- Adapted knowledge to US environment
- Large market opportunity
- Diversified purchasing across major sellers

### Australian / NZ lending

- Leverage knowledge of consumer
- Up-front loss provisioning
- Analytical monitoring
- Unique statistical underwriting

## OPERATIONAL EXCELLENCE

- Highest asset turnover <sup>1</sup>
- Lowest cost to collect <sup>2</sup>
- High performing on-shore and off-shore platforms
- Leading technology and use of data

- Significant growth in productive capacity with opening of second site
- Emphasis on payment arrangements and a lower proportion of litigated outcomes

- Automated decisioning
- Collection strength
- Unmatched efficiency

## SUSTAINABILITY & COMPLIANCE

- No adverse orders or undertakings
- Low dispute rate
- \$1.4Bn in ongoing repayment arrangements
- Low regulator complaint rate
- Strong client audit outcomes
- APRs below cap applicable to mainstream credit
- Regulatory upside - no 'payday loans'
- Superior pricing disrupting the market

### Target

Long-term growth

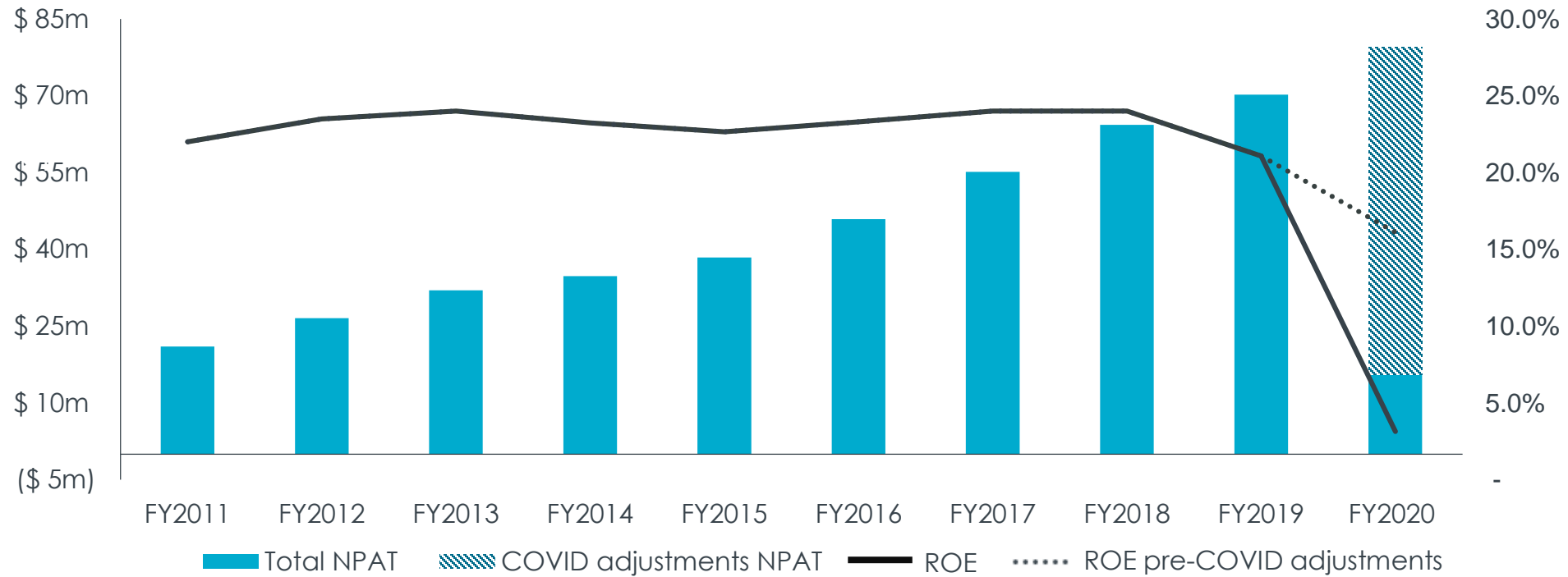
ROE 16% - 18%

Low gearing

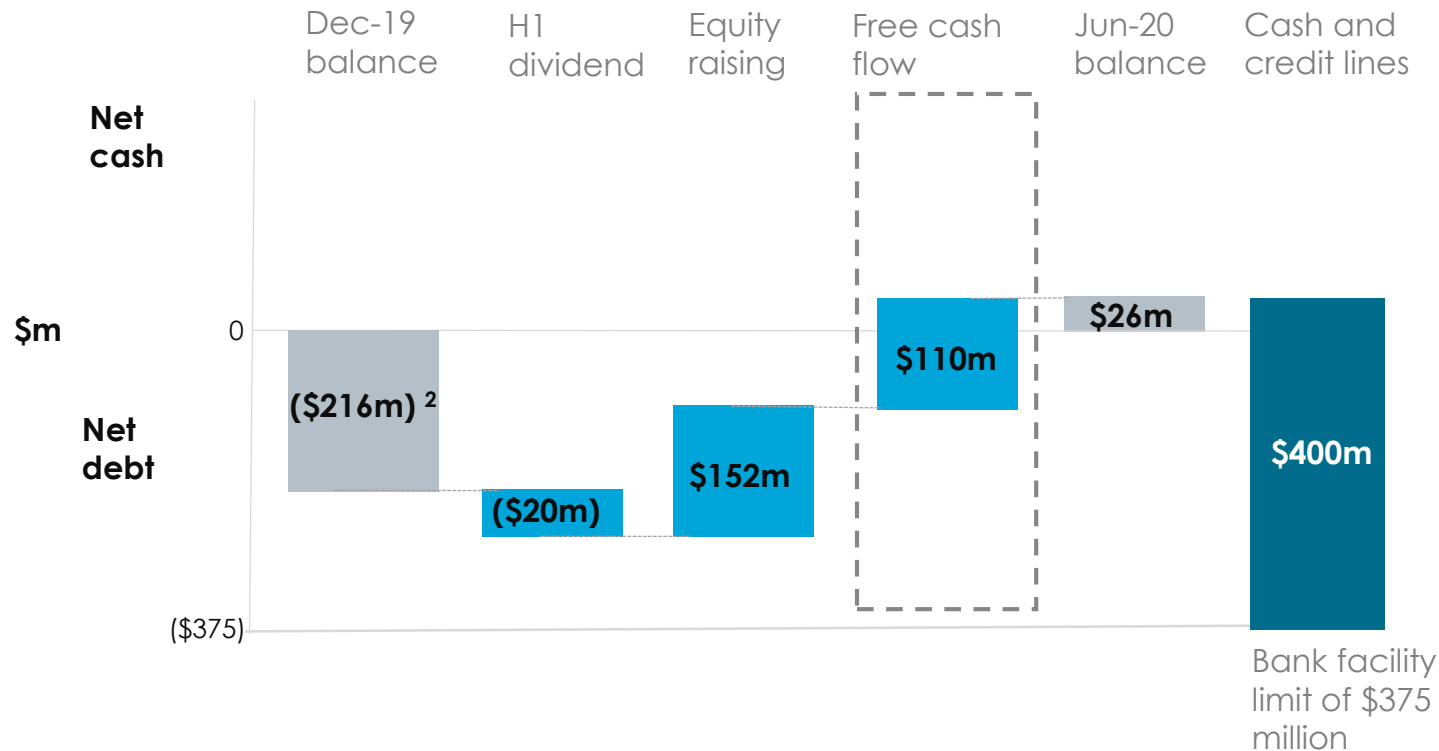
1.FY20 ratio of cash collections from PDLs to average PDL carrying value in Australian Debt Ledger Purchasing segment of 1.3x  
2.FY20 ratio of cash costs of the Australian Debt Ledger Purchasing segment to collections of 35%

... has delivered a sustained period of growth ...

### NPAT AND RETURN ON EQUITY



# ... and the flexibility to build cash when uncertainty emerges ...



\$400m of immediate investment capacity  
 Combined with projected 12 month cash generation of \$175m<sup>1</sup>

1. Free cash flow projection based on mid-point of FY2021 guidance, after allowing for \$150m of PDL/Net lending investment  
 2. Net debt adjusted for the revaluation of non-AUD denominated debt

# ... to meet client needs and prepare for opportunity

- Balance sheet enables continued purchasing despite heightened risk
- All major clients have continued their commitment to debt sale
- Some US clients anticipating growth in sales volumes of up to 80 percent in 6 to 12 months' time
- Reported increases in bank provisioning point to rising sales volumes ahead
  - The 'Big 4' Australian banks increased their collective provisions by an average 24.5% from 98 bps of their total risk weighted assets to 122 bps
  - US national banks provisions increased in Q1 and Q2, mainly attributable to increased loss expectations on their consumer credit card books e.g. JP Morgan Chase have increased their credit card provision to 11.7%, representing a near-quadrupling of credit card charge-off rates

# Disciplined investment has required assessment of the outlook ...



## ▪ Experience to date

- Since March 2020 customers have been less prepared to agree and maintain longer-term repayment plans
  - Producing a sharp initial decline in collections and a rise in arrears
- More recently, increased willingness to make one-off repayments has:
  - Brought May and June PDL collections back to pre-COVID expectations
  - Restored loan book arrears <sup>1</sup>



## ▪ Assessment

- Our experience is consistent with reported unemployment rates in excess of 10 per cent <sup>2</sup>
- We expect persistently elevated levels of unemployment
  - Credit-impaired customers more exposed to the risk of prolonged unemployment
- As temporary support is reduced, we expect PDL collections to fall and loan book arrears to rise



## ▪ Investment response

- Aligned PDL pricing with assessed outlook
- Tightened lending criteria
- Suspended lending pilots (auto and SME)

1.Excluding auto and SME pilots where arrears have not fully recovered

2.After adjusting for changes in work force participation and the temporarily offsetting impact of government support, stimulus measures and private sector forbearance (temporary support)

# ... resulting in impairment and provisions, impacting FY2020 ...

FY2020	
NPAT, pre COVID-19 adjustments	\$79.6m
Less: COVID-19 pre-tax impairments and provisions	
1. PDL impairment	(\$68.6m) Impairment of 13.5% of carrying value reflects the expectation of an 18% reduction in collections for 2 years before the start of a recovery <sup>1</sup>
2. Additional consumer loan loss provisioning	(\$11.2m) Increases loan loss provision from 18.7% of the consumer loans balance to 24.1% <sup>2</sup>
3. Onerous contract provision for forward flow contracts	(\$11.8m) Uneconomic portion of forward purchasing contracts <sup>3</sup>
Tax effect of adjustments	\$27.5m
<b>NPAT</b>	<b>\$15.5m</b>

1.The reduced ability to agree new repayment plans means that recently purchased PDLs comprise the bulk of the impairment and collections shortfall

2.Accounts for the elevated risk of default for existing customers who do not meet tightened lending criteria together with higher expected losses on the auto and SME pilot products

3.While significant progress has been made to re-negotiate current ongoing purchasing arrangements into more sustainable pricing, discussions are continuing with one large US client and one smaller domestic client

# ... masking the achievement of solid operating outcomes ...

**13%**

**growth in pre-COVID NPAT**

US and consumer lending were


**41% of group revenue and 39% of NPAT <sup>1</sup>**

	Post-COVID FY2020	Pre-COVID FY2020 <sup>1</sup>	FY2019	Var % <sup>2</sup>
AU/NZ debt buying	\$183.4m	\$225.3m	\$189.5m	18.9%
US debt buying	\$30.6m	\$57.3m	\$40.8m	40.4%
AU/NZ lending	\$99.4m	\$99.4m	\$94.0m	5.7%
<b>Revenue total</b>	<b>\$313.4m</b>	<b>\$382.0m</b>	<b>\$324.3m</b>	<b>17.8%</b>
AU/NZ debt buying <sup>2</sup>	\$18.8m	\$48.7m	\$44.6m	9.2%
US debt buying	(\$18.3m)	\$8.1m	\$5.5m	47.3%
AU/NZ lending	\$15.0m	\$22.8m	\$20.2m	12.9%
<b>NPAT total</b>	<b>\$15.5m</b>	<b>\$79.6m</b>	<b>\$70.3m</b>	<b>13.2%</b>
EPS (basic)	25.5 c		141.9 c	(82%) <sup>3</sup>
<b>Dividend</b>	<b>36.0 c</b>		<b>72.0 c</b>	<b>(50%) <sup>3</sup></b>

1. FY2020 pre-COVID  
 2. Pre-COVID FY2020 v FY2019  
 3. Post-COVID FY2020 v FY2019



# ... and proven debt buying operating capability

- 
 All sites operating effectively in a combination of work-from-home and office-based activity
- Solid operating metrics
- Capacity maintained

## AUS/NZ debt buying



	FY2020 <sup>1</sup>	Δ FY2019
<b>Collections</b>	\$363m	12%
<b>Productivity</b>	\$269 per hour	6%
<b>Operations headcount <sup>2</sup></b>	973	8%
<b>Payers book <sup>2</sup></b>	\$1,350m	5%

## US debt buying



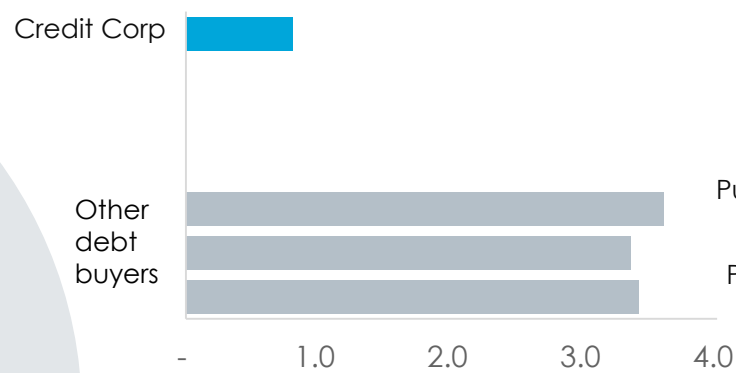
	FY2020 <sup>1</sup>	Δ FY2019
<b>Collections</b>	\$125m	55%
<b>Productivity</b>	\$220 per hour	-
<b>Operations headcount <sup>2</sup></b>	405	17%
<b>Payers book <sup>2</sup></b>	\$240m	53%

1.Includes Baycorp acquisition from 16 August 2019  
2.June 2020

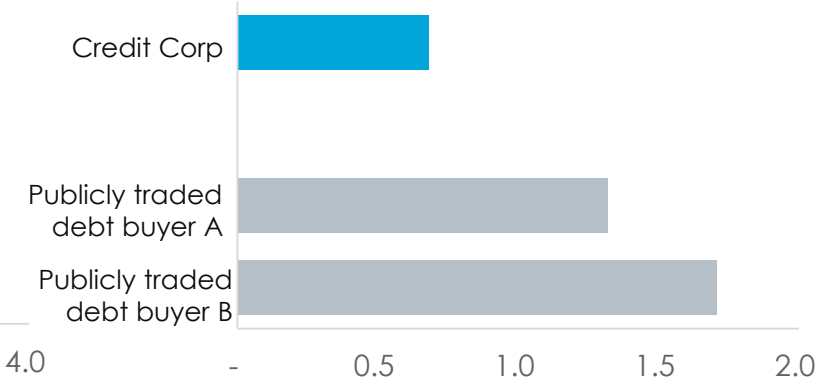
# Leading compliance record is important to clients during COVID ...

- Continued industry leadership
  - Lowest EDR rate in AU and low US dispute rate
  - Highest rating from consumer stakeholders
  - No regulatory actions
- Leading approach to hardship supplemented with additional COVID measures:
  - Temporary interest freeze on debt purchase accounts
  - Messaging to encourage online rescheduling of repayment plans
  - Implementation of repayment moratoriums
  - Temporary suspension of:
    - Legal and repossession activity
    - Credit reporting

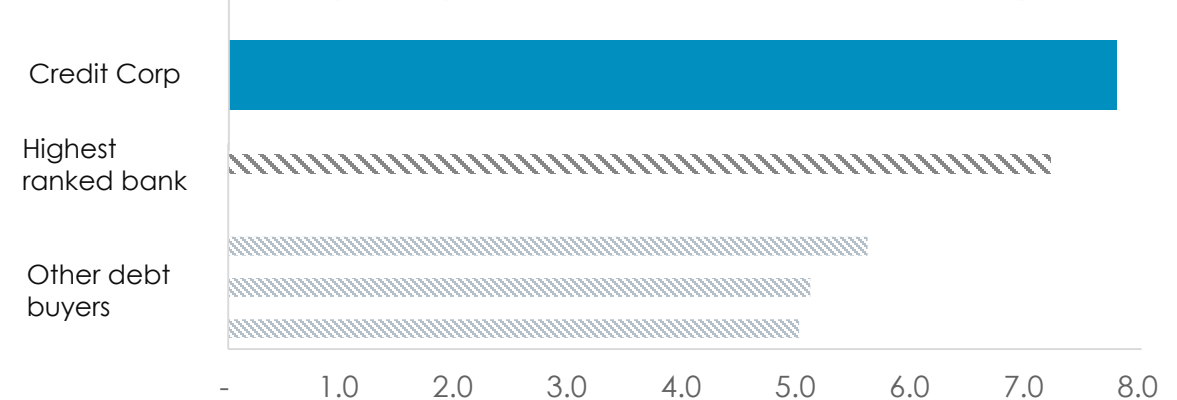
**FY2020 H1 AU EDR Rate <sup>1</sup>**



**12 months to Mar-20 US Dispute Rate <sup>2</sup>**



**Rating of banks & debt buyers by financial counsellors in 2019 <sup>3</sup> (score out of 10)**



1. No. of complaints reported by External Dispute Resolution (EDR) provider (The Australian Financial Complaints Authority) for the 6 month period to 31 December 2019 divided by total annual PDL collections expressed in millions of dollars pro-rated for an 6 month period.

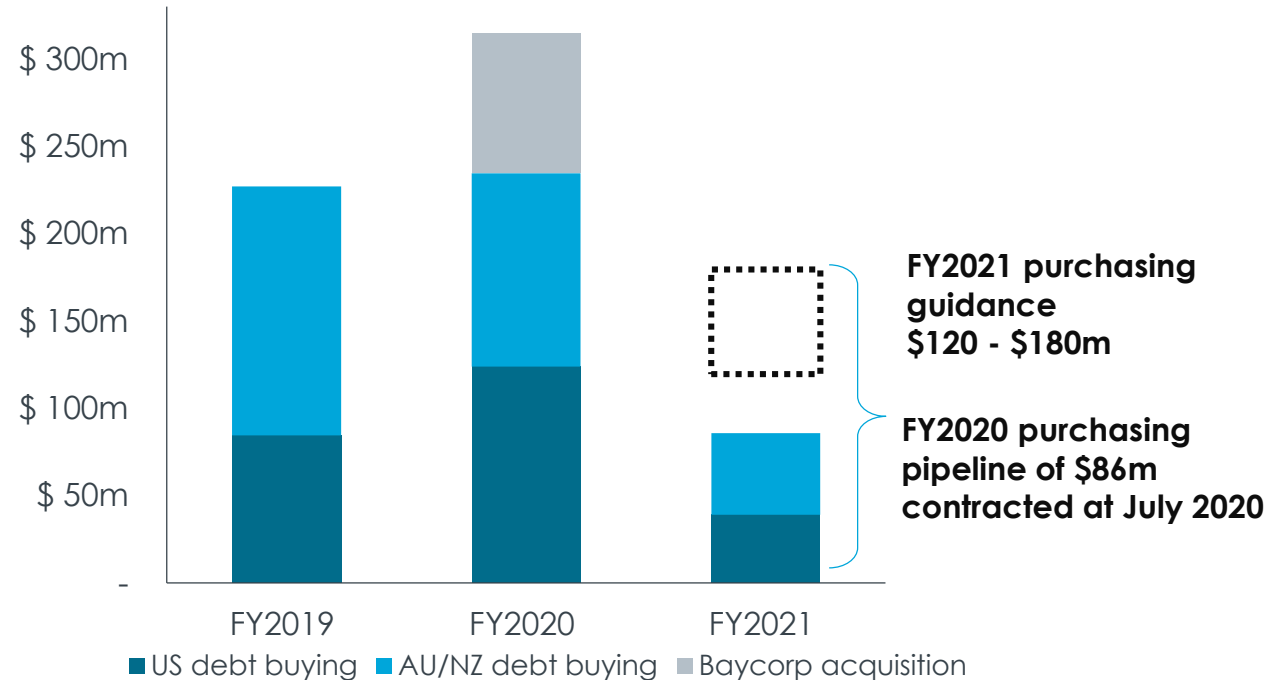
2. Complaint metrics from Consumer Financial Protection Bureau (CFPB) database for the 12 months to Mar-20 divided by reported collections [https://www.consumerfinance.gov/data-research/consumer-complaints/search/?from=0&searchField=all&searchText=&size=25&sort=created\\_date\\_desc](https://www.consumerfinance.gov/data-research/consumer-complaints/search/?from=0&searchField=all&searchText=&size=25&sort=created_date_desc)

3. Financial Counselling Australia: Rank the banks and other creditors survey 2019 - Rating of response to consumer hardship, July 2020, pages 7 and 19 .

# ... and has contributed to a solid purchasing outlook

- Clients putting more emphasis on compliance record
- Majority of existing forward commitments have been re-negotiated to sustainable pricing
- US pricing yet to adjust for consumer outlook
- Pipeline likely to increase significantly during H1 of FY2021

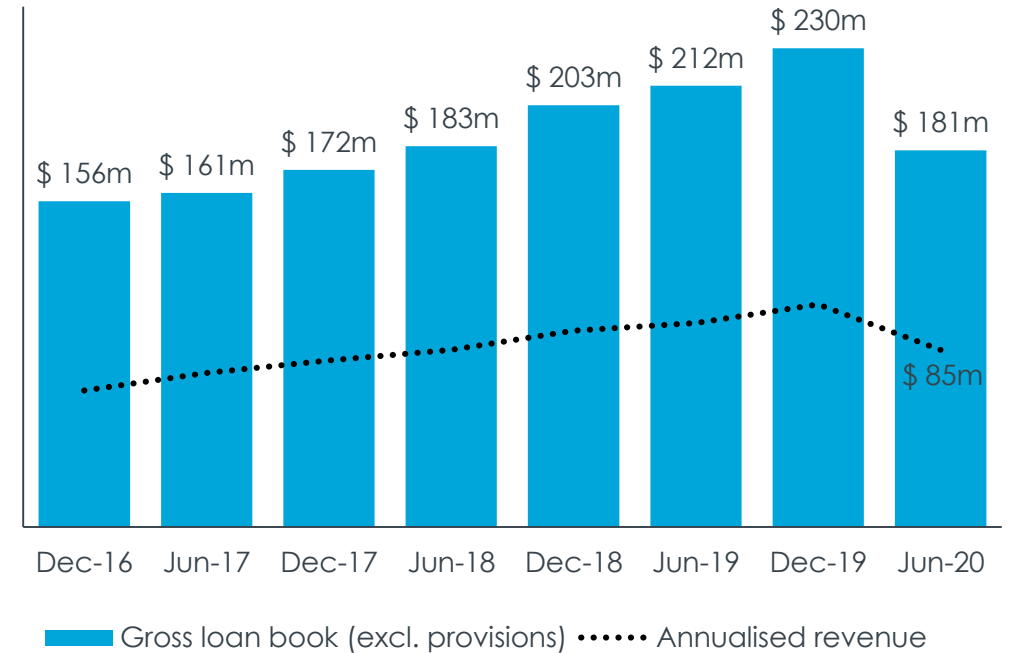
## PDL INVESTMENT



# The consumer loan book has run-off ...

- Demand impacted by temporary support
- Tightened underwriting focused on:
  - Employment risk
  - Limiting individual customer exposure
- Arrears within pro-forma
- Reviewing approval criteria monthly

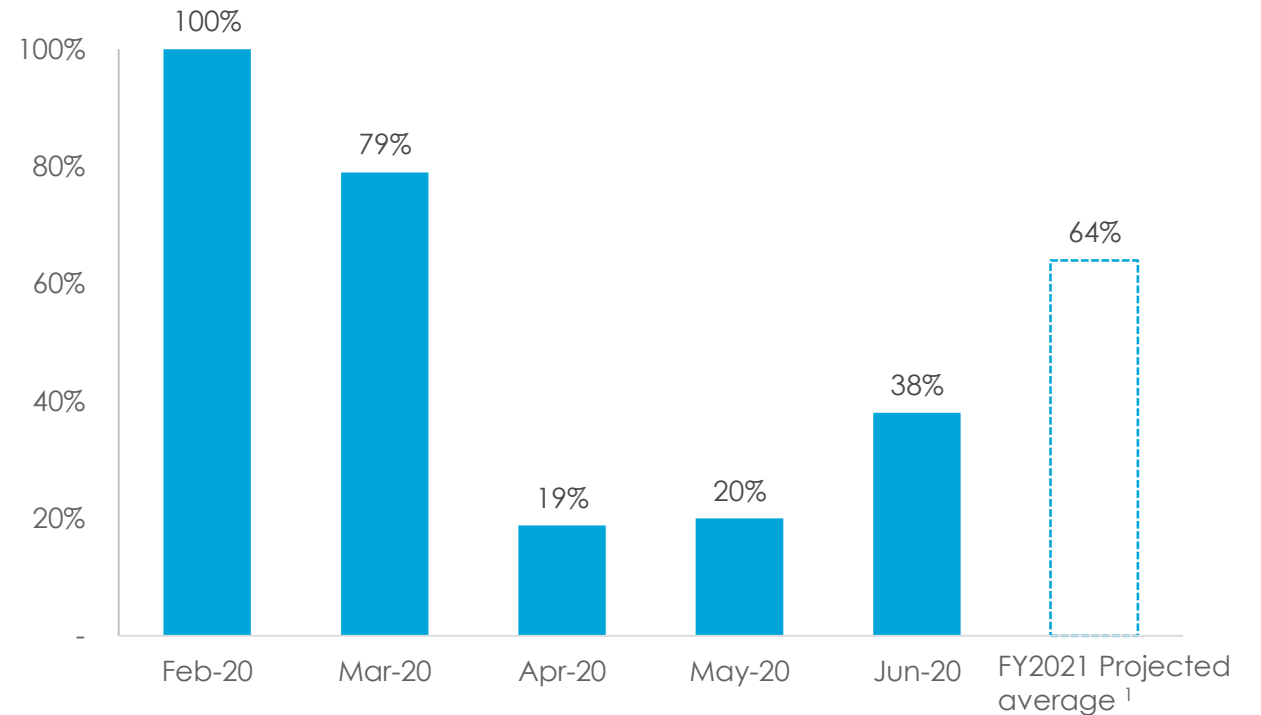
## CONSUMER LENDING BOOK AND REVENUE



# ... and is starting to stabilise, as volumes recover

- New customer approval rate at 41% of pre COVID levels
- Demand from existing customers improved in June
- Further recovery expected as temporary support eases

### Lending volume index to pre-COVID expectation



1. Midpoint of FY2021 guidance

# Strong platform established for a return to growth ...

- ➔
  - Financial strength to absorb the risk of investing during uncertainty
    - \$400m of cash and undrawn lines at June 2020
    - \$175m of free cash flow after allowing for baseline purchasing
  - Renewed client interest in debt sale
  - Outlook for rising sale volumes and improved consumer loan demand
  - Transparent assessment of consumer position complete
    - Impact of temporary support
    - PDL pricing models adjusted
    - Lending criteria adjusted
  - Proven operating capacity
    - Operating metrics intact
    - Scale maintained

# ... enabling guidance for solid FY2021 earnings despite uncertainty

## FY2021 guidance

PDL investment	\$120 - \$180m
Net lending	(\$5) - \$5m
NPAT	\$60 - \$75m
EPS (basic)	89 - 112 cents
DPS	45 - 55 cents



# Questions



# Appendices: Key Operating Metrics

Appendix 1: Operating cash flow and gearing

Appendix 2: Pricing discipline and accuracy

Appendix 3: Collections life cycle

Appendix 4: Productivity

Appendix 5: Payers base

Appendix 6: Operational and total headcount

Appendix 7: Baycorp

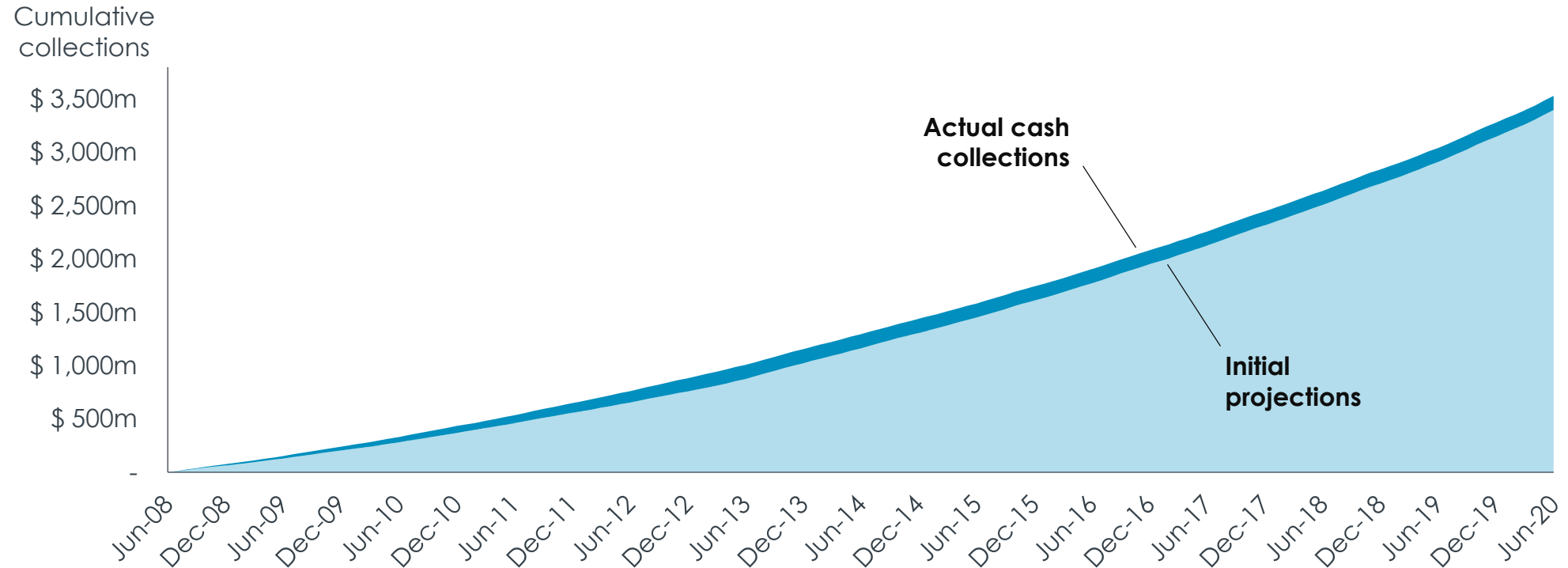
# Operating cash flow and gearing

Operating cash flows and gearing	Jun 2020	Dec 2019	Jun 2019	Dec 2018
Pre-tax operating cash flow	\$212.3m	\$182.4m	\$167.3m	\$163.4m
Tax payments	(\$7.8m)	(\$27.4m)	(\$28.9m)	(\$12.1m)
PDL acquisitions, net lending and capex	(\$94.1m)	(\$227.7m) <sup>1</sup>	(\$148.7m)	(\$144.1m)
<b>Net operating (free) cash flow</b>	<b>\$110.4m</b>	<b>(\$72.7m)</b>	<b>(\$10.3m)</b>	<b>\$7.2m</b>
PDL carrying value	\$422.6m	\$497.9m	\$414.1m	\$383.6m
Consumer loans net carrying value	\$137.3m	\$187.1m	\$172.4m	\$164.9m
Net cash / (borrowings)	\$26.2m	(\$205.8m)	(\$120.0m)	(\$226.7m)
<b>Net borrowings/carrying value (%)</b>	<b>N/A</b>	<b>30.0%</b>	<b>20.5%</b>	<b>41.3%</b>

1. Includes acquisition of Baycorp in August 2019.

# Pricing discipline and accuracy

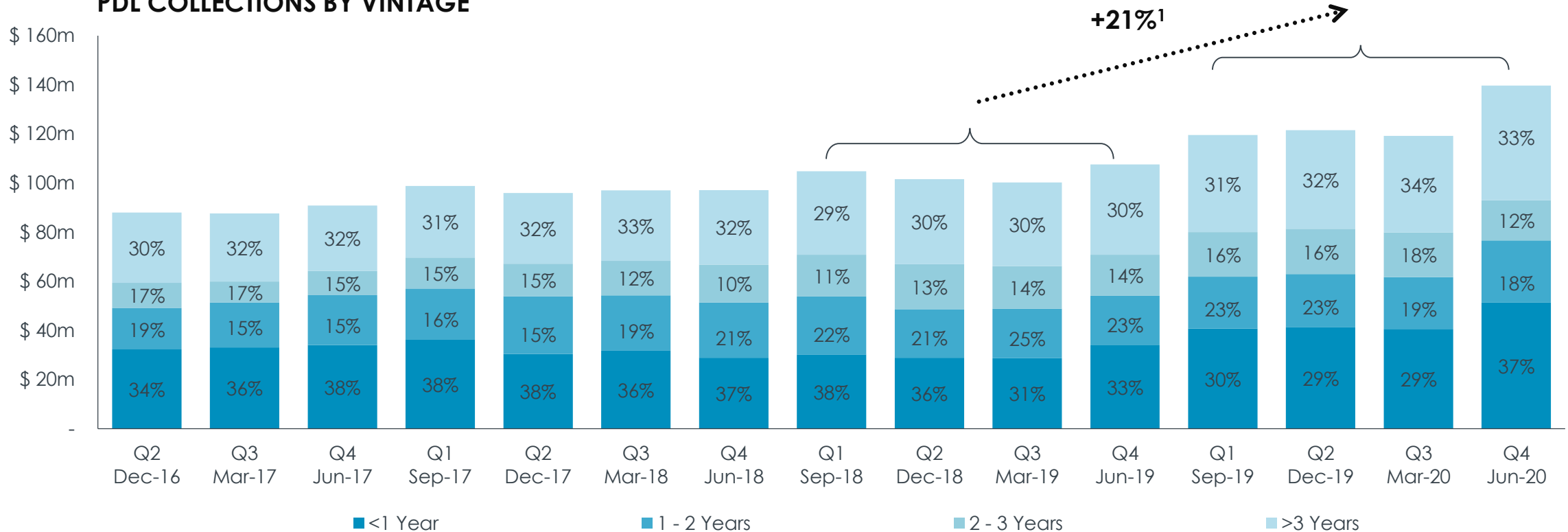
## PRICING DISCIPLINE AND ACCURACY



\* For all PDLs held at June 2008, initial projections represent the forecast at June 2008

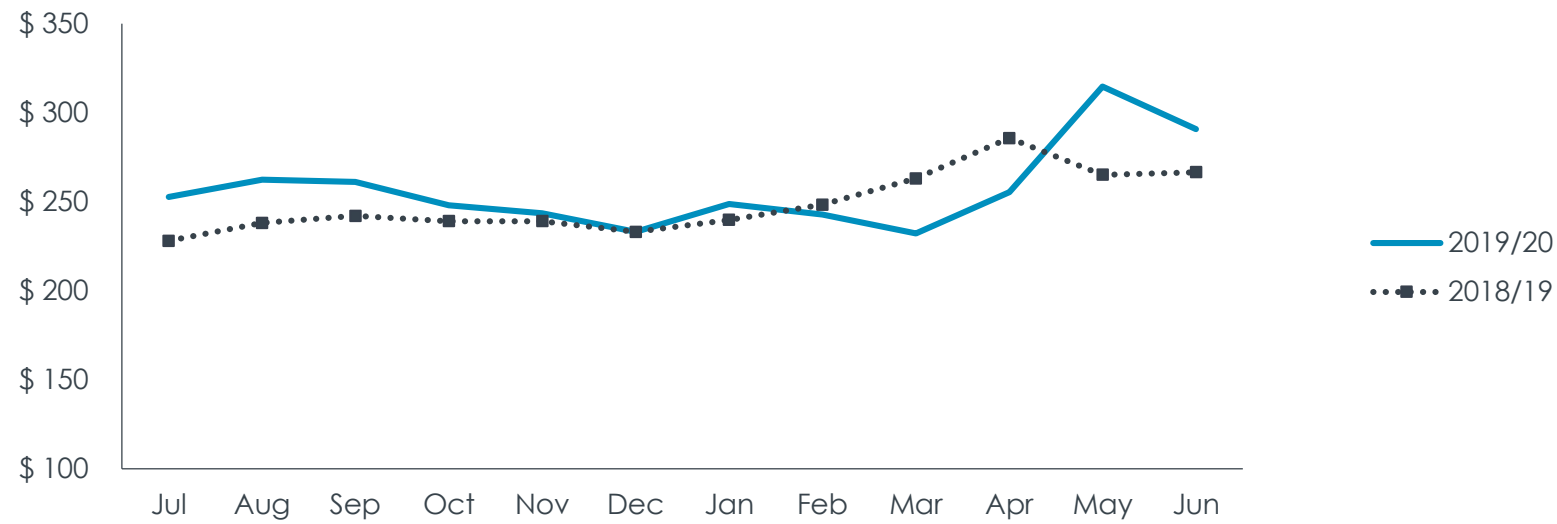
# Collections life cycle

**PDL COLLECTIONS BY VINTAGE**



1. 21% growth in FY2020 vs. FY2019

## PDL COLLECTIONS PER HOUR



Full year average

**FY2020: \$257**

**FY2019: \$249**

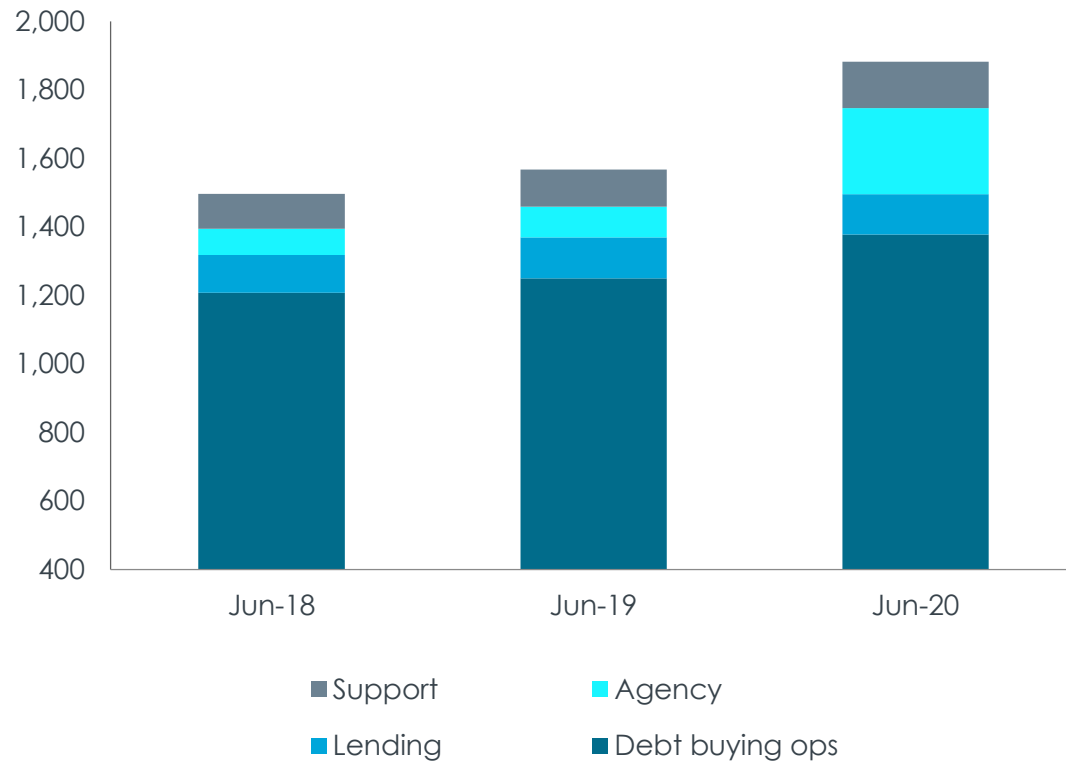
# Payers base

## PORTFOLIO SUMMARY: AU/NZ DEBT BUYING ONLY

<b>Total portfolio</b>	<b>Dec-17</b>	<b>Jun-18</b>	<b>Dec-18</b>	<b>Jun-19</b>	<b>Dec-19</b>	<b>Jun-20</b>
Face value	\$5.9b	\$6.0b	\$6.2b	\$6.4b	\$7.8b	\$7.7b
Number of accounts	710,000	710,000	753,000	786,000	1,268,000	1,193,000
<b>Payment arrangements</b>						
Face value	\$1,300m	\$1,300m	\$1,300m	\$1,300m	\$1,400m	\$1,350m
Number of accounts	153,000	157,000	154,000	157,000	200,000	195,000
<b>% of PDL collections</b>	<b>78%</b>	<b>81%</b>	<b>79%</b>	<b>78%</b>	<b>81%</b>	<b>73%</b>

# Operational and total headcount

## PERIOD END HEADCOUNT (FTE)



## PERIOD END HEADCOUNT (FTE)

	Jun-18	Jun-19	Jun-20 <sup>1</sup>
Debt buying operations	1,208	1,250	1,378
Agency	77	90	251
Lending	110	119	118
Support	102	108	135
<b>Total</b>	<b>1,497</b>	<b>1,567</b>	<b>1,882</b>
Support %	7%	7%	7%

1. Reflects Baycorp acquisition in August 2019

# Baycorp acquisition achieving pro-forma



- The Aug-19 acquisition is achieving pro-forma <sup>1</sup>
  - NPAT of \$6.4m v pro-forma of \$6.0m
- Debt purchase transition complete
- Integration is ahead of schedule
  - Annualised cost of savings of \$13m achieved
  - Combined agency operations outperforming
- Purchasing relationships in New Zealand enhanced
  - Acquired a record volume in New Zealand in FY2020



1. Excluding COVID-19 impairments.





Credit Corp Group

**Thank you.**