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TurnersCars

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Welcome

TurnersCars
Helping Kiwis buy and sell for over 50 years.

TURNERS AUTOMOTIVE GROUP

Investor morning

14 April 2021

Meeting Agenda

1. **Chairman's Perspective** – Grant Baker
2. **Turners Overview** – Todd Hunter
3. **Auto Retail Division** – Greg Hedgepeth
4. **Finance Division** – Todd Hunter
5. **Insurance Division** – James Searle
6. **Credit Division** – Matt Gannaway
7. **Capital & Funding** – Aaron Saunders
8. **Questions and Answers** – All



Chairman's Perspective

Grant Baker



A Transformed Business

As at March YE	FY10	FY15	FY20	FY21 Guidance
Shareholder Equity (\$m)	(3)	121	223	233 forecast
Total Assets (\$m)	109	329	708	725 forecast
NPBT (\$m)	(18)	19	29	35+ as per guidance
Dividend per Share (cps)	-	10.0	14.0	18.0 as per guidance
Market Capitalisation (\$m)*	4	202	118	293

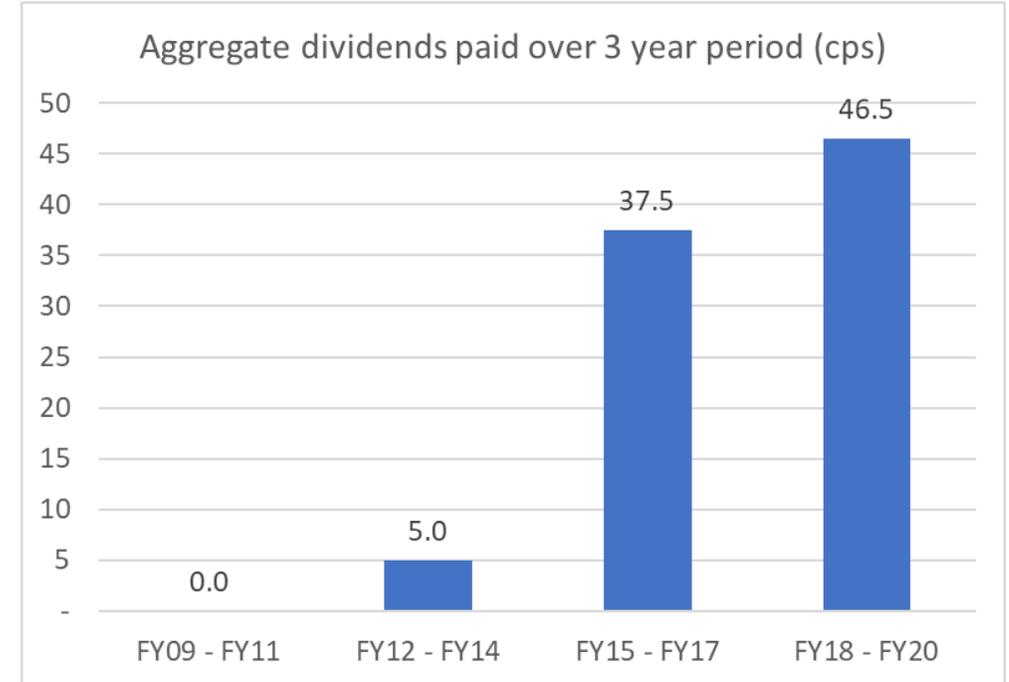
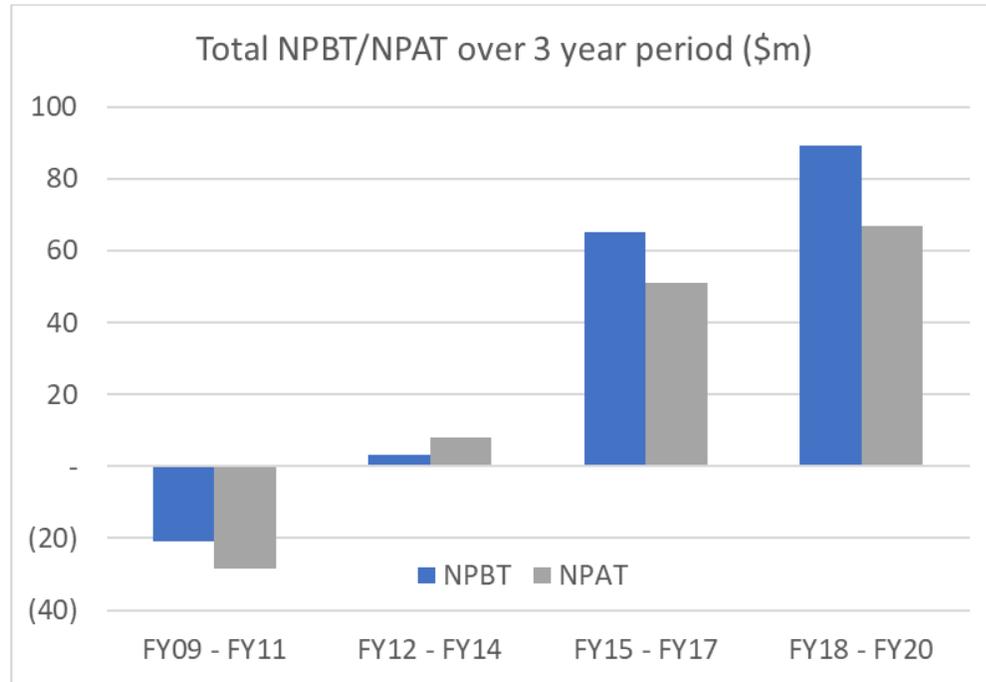
* Market capitalisation as at 31 March each year

Note – \$293m as at
12 April 2021

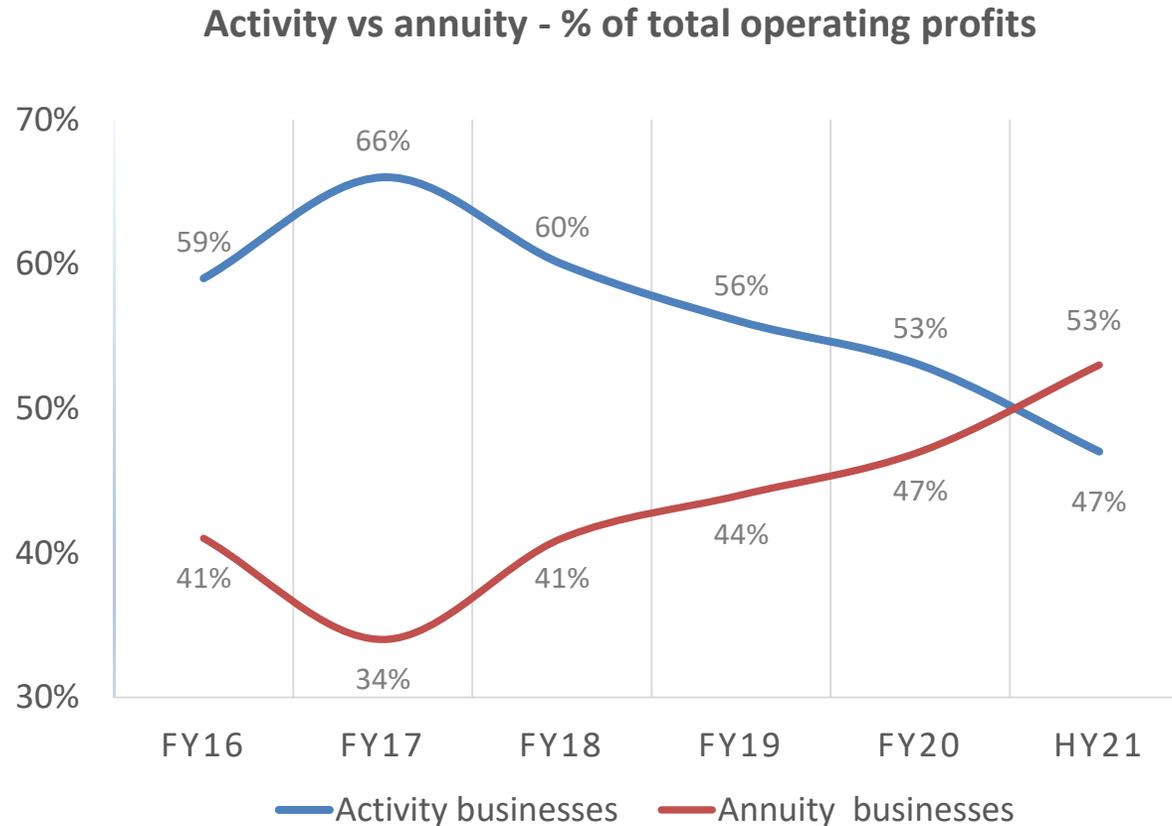
Numbers adjusted for 1-10 share swap in 2016

Successfully delivered on growth strategy

Earnings and dividends have grown substantially and predictably



Activity vs Annuity Revenue



- Businesses are a mix of activity and annuity based revenue business
- **Annuity profits (Finance and Insurance)** now account for 53% of group profits
- The growth in annuity earnings is providing more consistency and stability in group profits

Our pathway to future growth

1. A strong focus on organic growth
2. Further optimisation in all businesses with margin expansion and market share gains
3. Focus on sustainable dividend growth - management and board “skin in the game”
4. We will consider and look at opportunistic bolt-on acquisitions
5. Investing further in Digital to press home our advantages of scale

Turner's Overview

Todd Hunter



Turners.
Automotive Group

Building Quality

Four key areas underpinning earnings growth

We have found the right formula, and will optimise further ...

A number of changes we have been working on over the last 2-3 years are now delivering both market share growth and margin expansion as well as de-risking the business.

1. Retail optimisation

- Property and customer experience optimised for retail consumer
= market share and margin expansion
-

2. Vehicle purchasing decision-making

- Diagnostic tools + use of data tools improving on % of profit making vehicles
= margin expansion
-

3. Premium lending

- Use of comprehensive credit data to implement new risk pricing strategy attracting higher quality borrowers...lower margins offset by much lower impairments and losses = margin expansion and market share
-

4. Insurance system development

- New rating and retail selling system created opportunity to price risk in more granular and appropriate way
= margin expansion and market share

Businesses are well positioned for the “new norm”



Auto Retail

- Used cars have demonstrated resilience
- Geographical diversification
- Diversified sources of supply
- High trust brand for uncertain times



Insurance

- Annuity earnings helpful in lockdown
- Premium taken up front
- Improving technology and distribution
- Using a portion of capital reserves to build property portfolio used in Auto Retail



Finance

- Annuity earnings helpful in lockdown
- Arrears proven to be robust
- De-risking strategy working well



Credit/Management

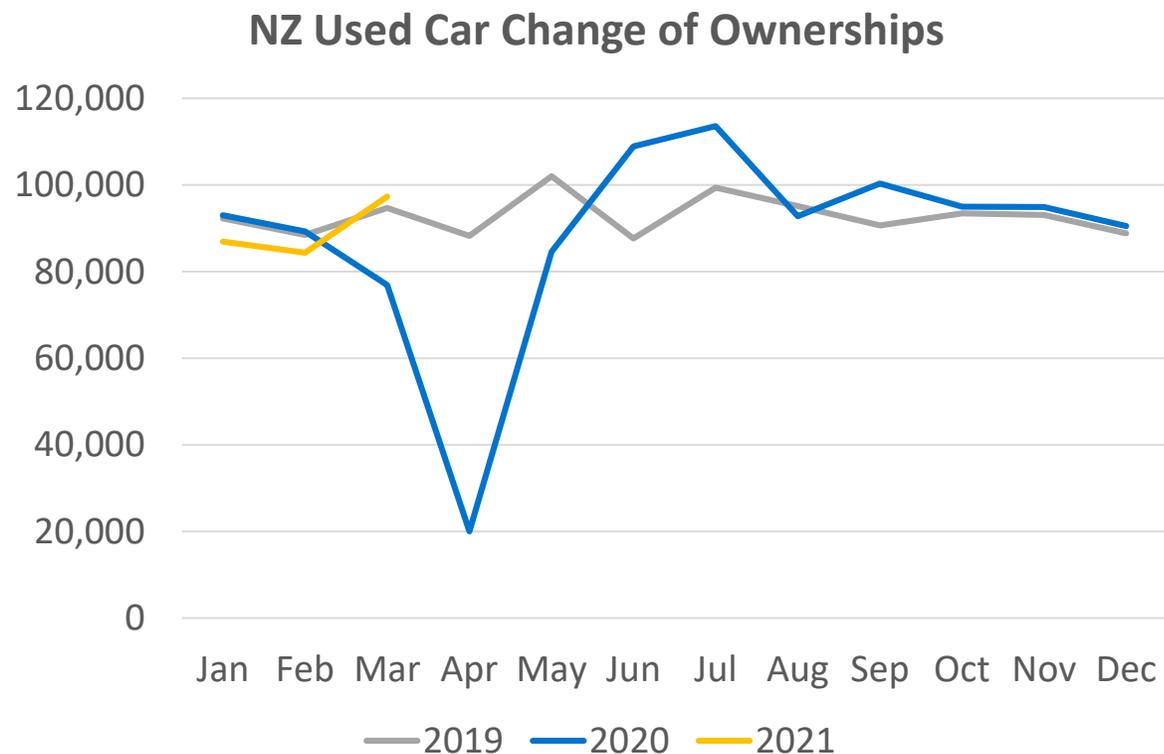
- Payment bank stickier than expected
- Counter-cyclical, defensive
- Strong relationships from debt loaders

Resilient and well placed for an uncertain environment

COVID was a stress-test, but we exceeded expectations

- 1. Used car market is resilient**
- 2. Diversified and resilient business**
- 3. High “trust” brands**
- 4. Digital is a competitive advantage**

1. Market - The used car market is resilient and robust



Source: NZTA

- **COVID** had a temporary impact, before a strong rebound in June and July
- **August impacted** by second lockdown, AKL sales dropped most (c.1/3 of population)
- **Underlying demand** still strong with more cars exiting the fleet
 - **Mar 2020:** all vehicles imported into the country required to have ESC, impact in sub \$8k budget segment
 - Cost of repairs increasing
 - Stricter WoF regime
 - 20% of vehicle fleet 20 years or older

2a. Diversification - geographic

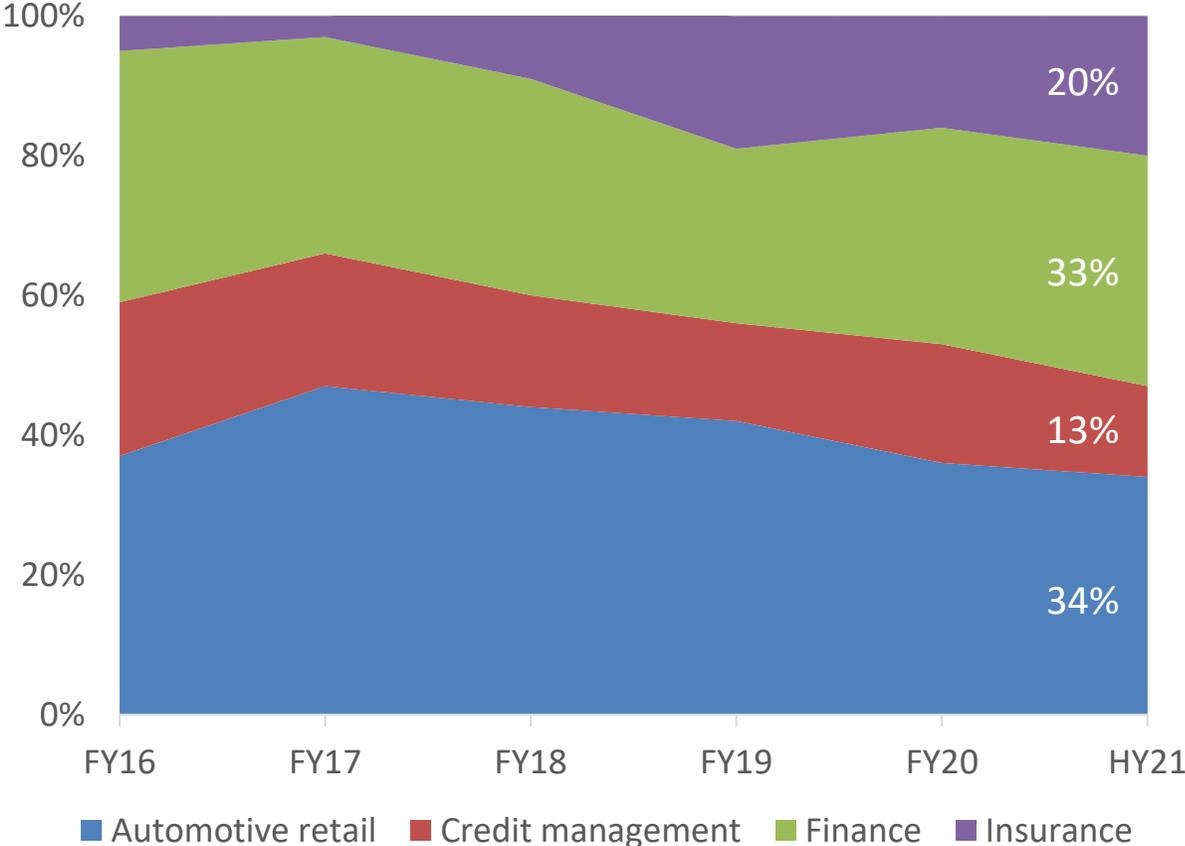
Our nationwide network offers a unique advantage



- Geographical diversification allows the business to redeploy inventory
- Advantage if there are any localised lockdowns or regional demand differences
- Online sales / click n collect at any branch nationwide

2b. Diversification - business

Turners Group is a purposefully diversified business



Each business has **different business cycles:**

- Stable annuity revenue (finance + insurance) helps offset short-term drop in activity-based revenue (auto retail + credit).
- Credit management is counter-cyclical
- Can increase our mix towards consignment (reduce working capital & any pricing risk).

3. Brand - leverage the trusted Turners brand

Trust is even more important in a time of uncertainty



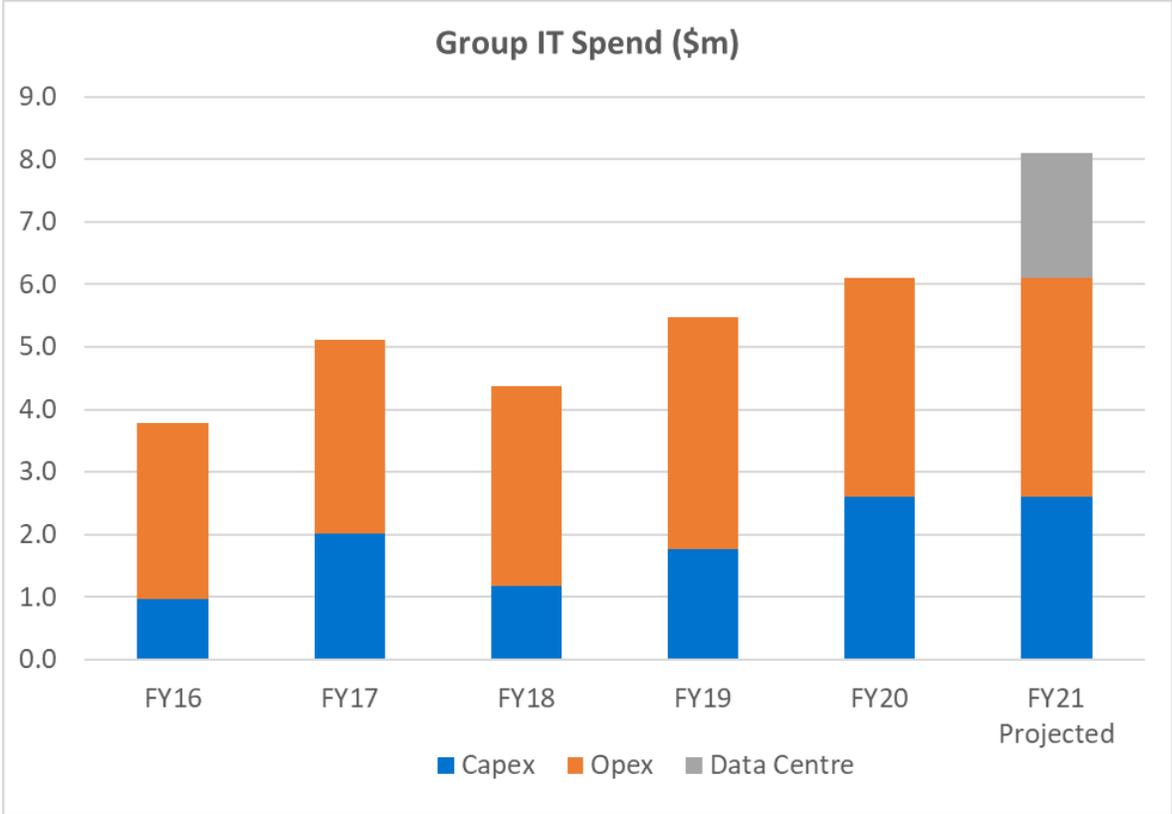
**2020 Readers
Digest Trusted
Brand Award:**

NZ's most
trusted used
car dealer.

- **Most trusted brand**
Turners is consistently NZ's leading used auto retail brand (independent market research)
- **100% online sales demonstrates trust**
Sold 600 vehicles during Level 4 and 3 lockdown. The ability to sell uninspected vehicles online at scale demonstrates the high trust and awareness of the Turners brand
- **Valuable online presence**
Second most visited auto site, with traffic online hitting all time highs

4. Data Focus – Our digital advantage

Continue to invest in this crucial advantage versus competitors



- Maintained headcount of Technology team: 26 FTE (Applications 15, Infrastructure/Operations 11)
- Major investment and resource commitment in high redundancy data centre spread between 2 sites (AKL + HAM)
- Turners Car Subscription launched in mid-Sept
- Focus going forward on digital marketing, customer data platform and marketing automation
- New Chief Digital Officer appointment in April

Three most important Digital initiatives we are working on

Customer Data Platform (Auto Retail)

- Integrates our customer omni-channel experience
- Creates a unified view of our customers and allows for marketing automation and personalisation
- Material opportunity to drive up lead conversion on website users
300,000 unique users per month
on www.turners.co.nz
- Strategically important for reducing our reliance off TradeMe and reducing cost per lead

API Development (Insurance)

- Development of APIs for the policy underwriting system in Insurance
- Already integrated and embedded within Motorcentral (largest dealer management system in NZ), MTF Finance, Heartland Finance
- Material impact on distribution

Valuation Tool (Auto Retail)

- Uses a traffic light warning system
- Uses leading edge cloud based AI tool Data Robot
- Provides guidance to vehicle buyers when they are outside of valuation boundaries
- Outcome is to buy less loss making vehicles but also purchase more vehicles that we are under pricing.

Our vision:
*To be NZ's leading
ecosystem for vehicle users*

Our business |



Finance



Auto Retail

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Automotive Group



Insurance



**Credit
Management**

Auto Retail Division CEO Greg Hedgepeth



What does the Auto Retail business look like?

We are New Zealand's favourite place to buy & sell vehicles (~30,000 cars p.a.)

Cars Division (80%):

- Transition from auction/wholesale to retail/consumer ... better yield and cross-sell to Finance and Insurance
- ~50% of cars sold on consignment (e.g. govt, lease, finance companies)
- ~50% direct: purchased to sell, take price risk on owning the asset. e.g. public, dealers, imports, de-fleets.
- ~90% of the vehicles we sell are sourced locally, only 10% are imported.



Commercial Division (20%):

- Trucks & Machinery plus Salvage (insurance write-off) vehicles.
- Predominantly a consignment business that utilises the Auction sales channel, almost exclusively transacted online.
- Re-marketing contracts in place with most of NZ's biggest Insurers and commercial vehicle fleets.



Auto Retail - Today

#1

NZ's largest buyer and seller of vehicles

6 mins

Turners sell 1 car every 6 minutes, which equates to over 100 cars per day

NZ's #1

most trusted used vehicle dealership brand 2 years in a row



22,000

Damaged vehicles sold on behalf of insurers in FY21

26

Locations in NZ from Whangarei to Invercargill

\$58m

Worth of Trucks & Machinery sold in FY21

440

Average number of finance contracts written per month

97%

Customers 'that would recommend Turners' via Buyerscore (our customer feedback platform)

445

Kiwis employed across the Auto Retail business

Why we have an unfair advantage

- **Scale** – overall size, volume and our transactional database (NZ's biggest) helps us buy & sell better than others
- **Diversification of locations and supply** – network of nationwide locations, mix of consignment + owned stock
- **Customer Driven** – we have a relentless focus on our customers and invest heavily in tools to enhance customer experience
- **Omnichannel** – our business is “bricks & clicks” with physical locations going hand in hand with the online experience
- **Digital first** – every challenge or opportunity we face is approached with digital solutions and investments in technology

Everyday we strive to **make it**
easy for our customers.

Our retail optimisation strategy is progressing well

Continue to optimise our network

- Transition from wholesale to retail (eg. exit Penrose Super site)
- Rationalise sub-scale sites (e.g. New Lynn vs Westgate)

Getting closer and more accessible to our customers

- Retail optimisation: our sweet spot is c. 6,000 - 10,000m², high profile site, adjacent to large customer catchment
- Omnichannel: convenience is key, manageable selection on each site, but max selection online. Click n Collect approach

Regularly assessing new regions and sites

- Significant opportunity in the regions, criteria population 60k+
- A combination of lease or own sites, based on optimisation

Our property portfolio is now 10 sites (valued at c\$60m)

New Dunedin operation (opened May 2020)



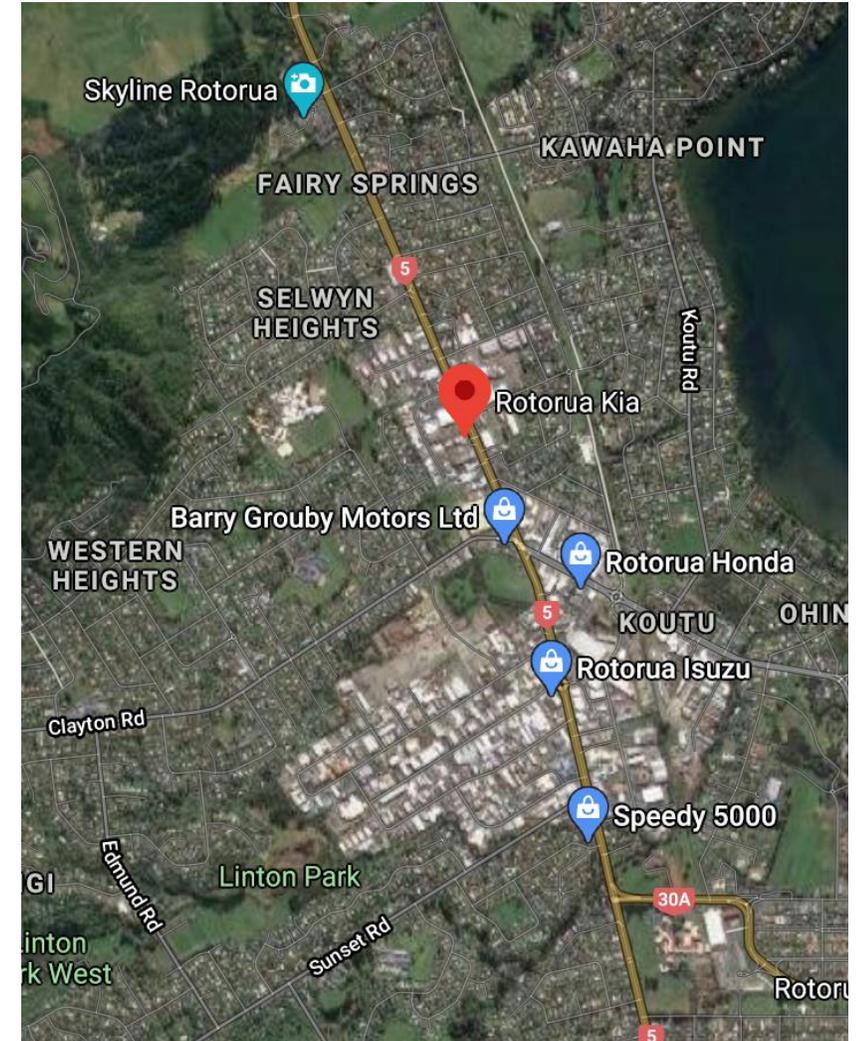
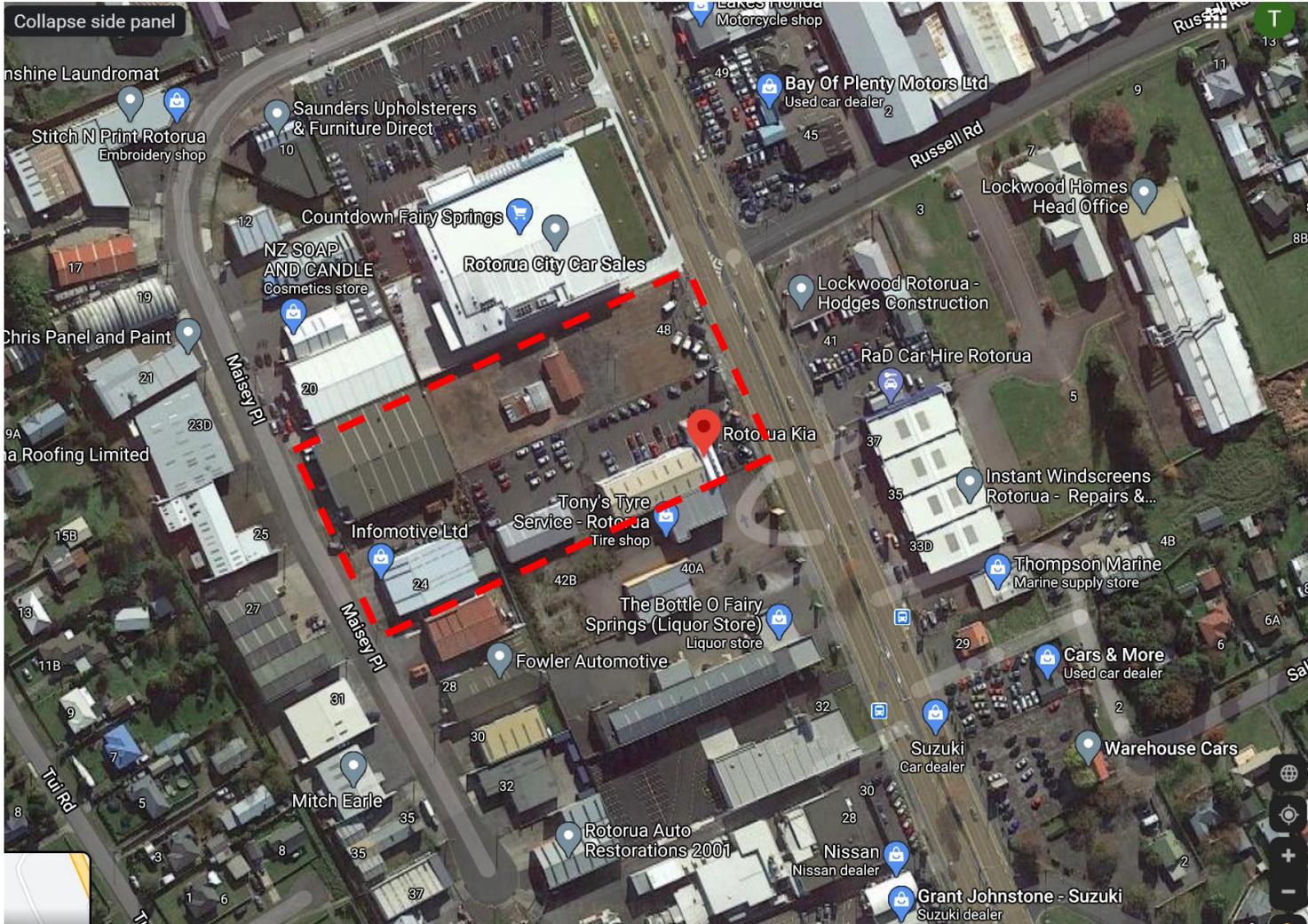
New Westgate operation (opened Oct 2020)



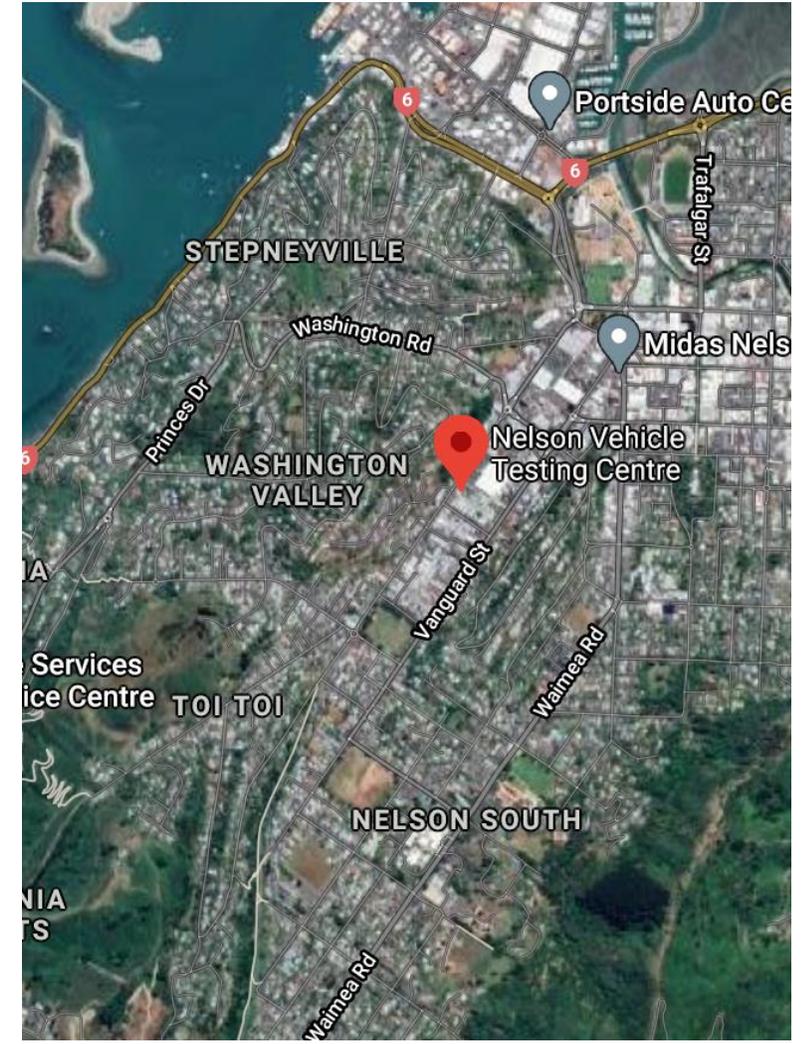
New Otahuhu operation (opened Jan 2021)



Expansion - confirmed new sites in the next 12 months - Rotorua



Expansion - confirmed new sites in the next 12 months - Nelson



Data Focus - Recent examples of our “Digital First” approach

Reduction in loss making purchases

(Live Q1 2020)

Nationwide deployment of diagnostic scan tools to help identify mechanical issues prior to purchase.

Reduction in our cost per lead

(Live Q2 2020)

Development of a 1st party data strategy utilising a Customer Data Platform to create a true single customer view.

Improve Marketing lead conversion

(Live Q3 2020)

Implementation of a sophisticated marketing automation system using multiple channels based on real time consumer behaviour.

Improve Sales lead conversion

(Q2 2021)

Internal development of a proprietary lead management system enabling sales staff to minimise leakage and increase activity levels.

Purchasing volume maximisation

(Q3 2021)

Utilisation of AI combined with our transactional data to help buying team to identify incremental volume opportunities.

Growth Focus – Auto growth priorities

Opportunity

1. Sourcing

Buy more local car inventory & maintain margin.

Profit / vehicle

\$1,500

2. Retail Optimization

1-2 additional retail location pa.
Investment in staff.

Regional Branch

**Operating Profit of
\$500k pa**

3. Finance & Insurance

Maximise F&I as a sales enabler & revenue stream.

Finance attach

+1% = \$400k

4. Lead management

Improvement in both marketing & sales conversion rates.

1% lift

+800 sales pa

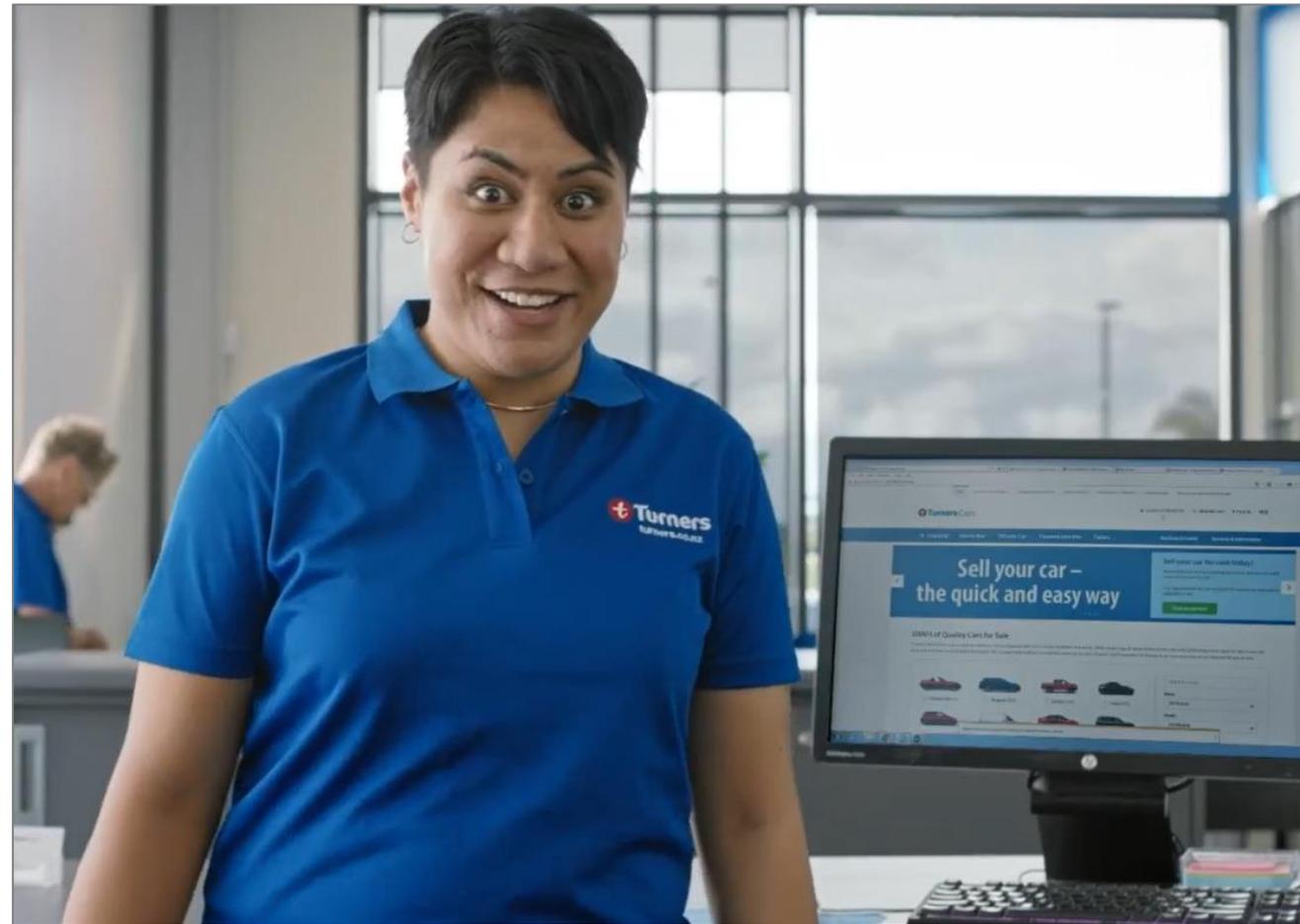
5. Build the Brand

Become a Kiwi Icon & market leader in used car data.

Higher consideration

Introducing Tina from Turners ...

Upcoming promotional campaign



Questions

Group + Oxford CEO

Todd Hunter

The logo for Turners Automotive Group, consisting of the word "Turners." in a bold, black sans-serif font with a period, and "Automotive Group" in a smaller, black sans-serif font below it. The logo is centered within a white circular background.

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History of Oxford Finance

Oxford Finance includes the former Dorchester & Southern Finance businesses



- 2016** AutoApp Launch
- 2017** BNZ securitisation facility is established
Amalgamation of Oxford Finance, Dorchester and Southern Finance brands on to a single receivables platform
- 2018** Turners Auto-Retail loans redirected via Oxford Finance
- 2019** Centrix credit reporting (CCR) implementation
Online Direct lending channel established
3-tier risk pricing model implemented
Online digital signing and ID verification implemented
- 2020** Risk pricing model extended to 4 tiers

Finance Today

\$322m

Gross receivables less
impairments @ Mar-21

\$51m

Commercial ledger less
impairments @ Mar-21

\$251m

Consumer ledger less
impairments @ Sept-21

20%

% of new lending generated
by Turners Auto Retail network

16%

Ledger has grown over \$45m
from Mar-20 to Mar-21

190

Average number of dealers and
brokers who originated business
per month FY21

24,276

Number of open consumer loans @
Mar-21 of which 66 are in hardship

\$12,000

Average consumer loan size

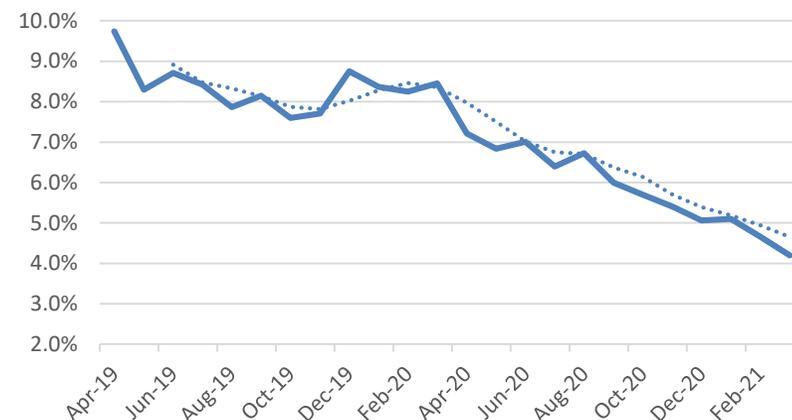
99%

of loans are secured

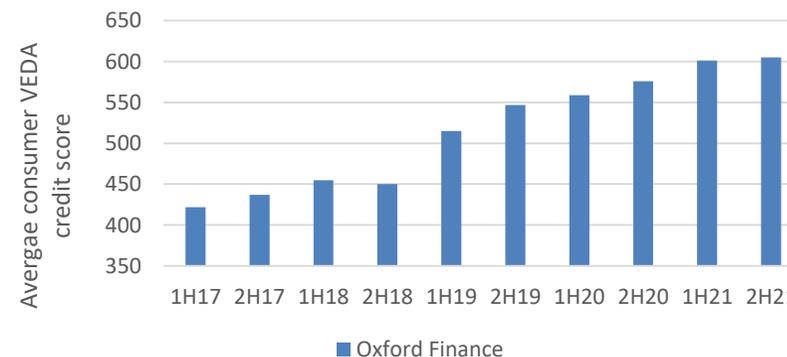
Credit scores improve, arrears decline, market share increases

1. High quality Turners Auto-Retail origination tracking
~2% total arrears with ledger size of \$55m
2. Introduction of Centrix Credit Rating (CCR)
3. Expanding the Risk Based Pricing Model /
Premium Tier Introduction
4. Higher risk MTF and DFL Legacy loans run-off

Consumer Total Arrears Percentage



Improving Customer Credit Scores



Growth Focus – Finance growth priorities

Provide a competitive product, that meets needs of introducers + customers

Grow distribution

- Partnerships, more originators, direct

Reduce transaction friction via tech

- Investment in market leading online portal, AutoApp
 - Introduction of auto-scraping of bank account data
 - Early adoption of Centrix Credit Rating positive credit
 - 100% online loan signup process introduced
 - Early adopter of Commercial comprehensive credit reporting
-

Early settlement reduction

- 2 - 3% of loans early settle each month.
 - Each 1% reduction equates to an effective \$3m in lending each month
-

Direct and Digital are a big opportunity

- Multiple process automation opportunities
- Scale lending without scaling people

Questions

Insurance Division CEO James Searle



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Insurance – What do we do in the business?

We help Kiwis with motor vehicle, loan protection and life insurance solutions

- Distributed through licensed car dealers, finance companies & brokers, life insurance advisers and online
- Head office in Auckland (incl. claims and operations teams), sales representatives throughout NZ
- Range of products:
 - Mechanical breakdown insurance (represent 80% of premium revenue)
 - Payment protection insurance
 - Guaranteed asset protection insurance
 - Car insurance (underwritten by Suncorp New Zealand)
- Term life & funeral insurance

EXAMPLES OF WHITE LABEL BRANDS



Insurance Today

5,500+

Number of insurance policies sold per month

3,000+

Mechanical Breakdown Insurance policies sold per month

200,000+

Number of active policies as at Sept 20

\$35m

Value of new policies sold in FY20

1,400

Monthly average number of claims paid out in FY20

\$20m

Value of claims paid in FY20

943

Number of active dealers and brokers selling our products

41

We employ 41 kiwis across the Insurance business

33

Number of years James Searle has been involved in Insurance

Insurance – What do we do differently?

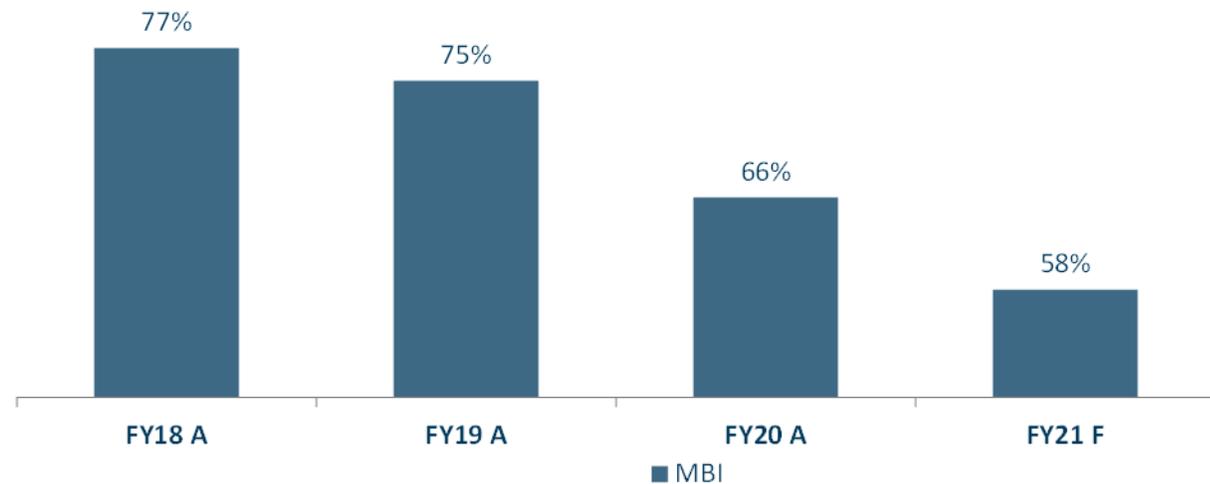
- Our value proposition is based on service and quality
- Expertise and economies of scale in vehicle repairs delivers value for customers
- Our premium rating and underwriting controls are more refined
- Network: We have an extensive approved repairer network and parts supply chain
- Industry: We are actively involved within the NZ motor vehicle and consumer finance industries
- Digital: Our use of technology and linking with third party systems improves customer experience
- Data-led: We actively use our extensive data and IP for decision making



Insurance – MBI loss ratio performance

Our MBI portfolio has seen an improvement in loss ratio over the last four years

- **Rate for risk:** improved risk rating treatment of vehicles with revision of vehicle categories and standardised underwriting of vehicles within scope of risk profile selected
- **Strengthened pricing and underwriting:** launch of our new POS platform (Generator) ensures correct pricing and underwriting of vehicles at point of sale including automated underwriting
- **Claims cost control:** improved processes and leverage of our scale to make the best use of our buying power
- **Improved claims management disciplines:** setting of uniform claim assessment procedures, and KPI measurement and monitoring



Growth Focus – Insurance growth priorities

- **Key Partnerships** – increase sales with large industry partners from linking systems via API
 - secure exclusive partnership arrangements
 - enhanced system functionality to assist growth in insurance sales (PPI & GAP)
 - improved processes to support compliant transactions and good customer outcomes
- **Targeted rate for risk actions** – further refinement of premium rate for risk
 - increase our sales volumes of lower risk vehicles
 - more granular rating for higher risk vehicles to balanced category loss ratios
 - bespoke pricing and solutions to support acquisition and sales growth of target agents
- **B2C distribution channels**
 - Re-architecture of POS system to effectively support this channel
 - Development of a new B2C (self service) solution to support sales within our agent network
 - Complete development of systems and processes to support the launch of a direct to consumer channel proposition

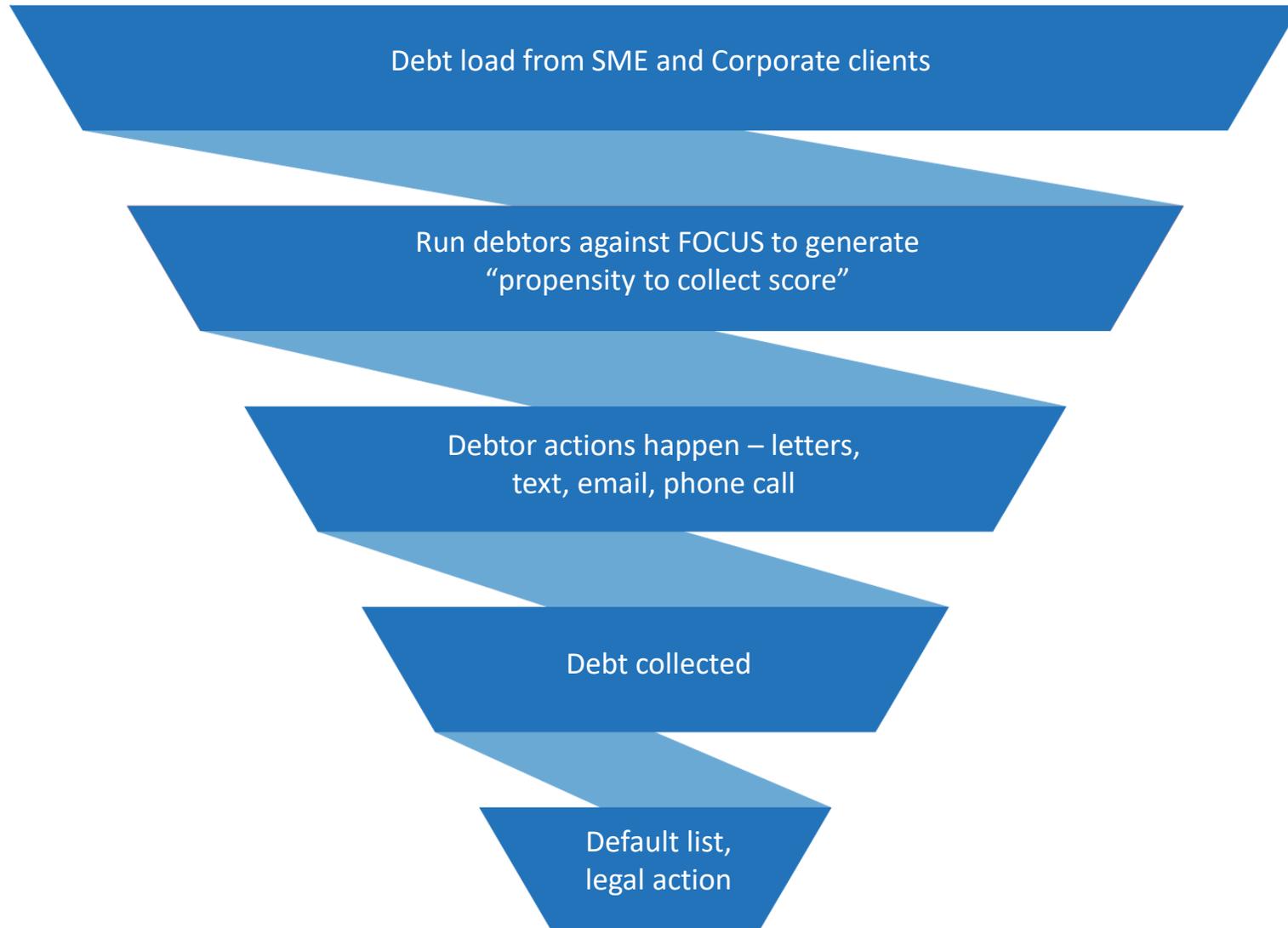
Questions

Matt Gannaway

Credit Division CEO



The debt collection process



FOCUS is an analytical process which creates a “propensity to collect score” to enable prioritisation of collection strategies



Highly targeted communication strategy ... focus on brokering resolution between debtor and client

ECCC generates commission from debt collected...

Capital light business model and strong cash generator

Credit Management Today

\$89m

Corporate debt load in FY21

2,291

Number of SME clients loading debt FY21

\$41.4m

Amount of money collected from debtors FY21

712

Number of SME clients who have loaded debts via Xero and MYOB since April 2019

33%

The average recovery rate for SME debt loaded FY21

36%

The average recovery rate for Corporate debt loaded FY21

2.1m

Debt collection actions undertaken in the last 12 months.

54

We employ 54 people in our business 49 are based at Head Office in Napier and 5 in Australia

39

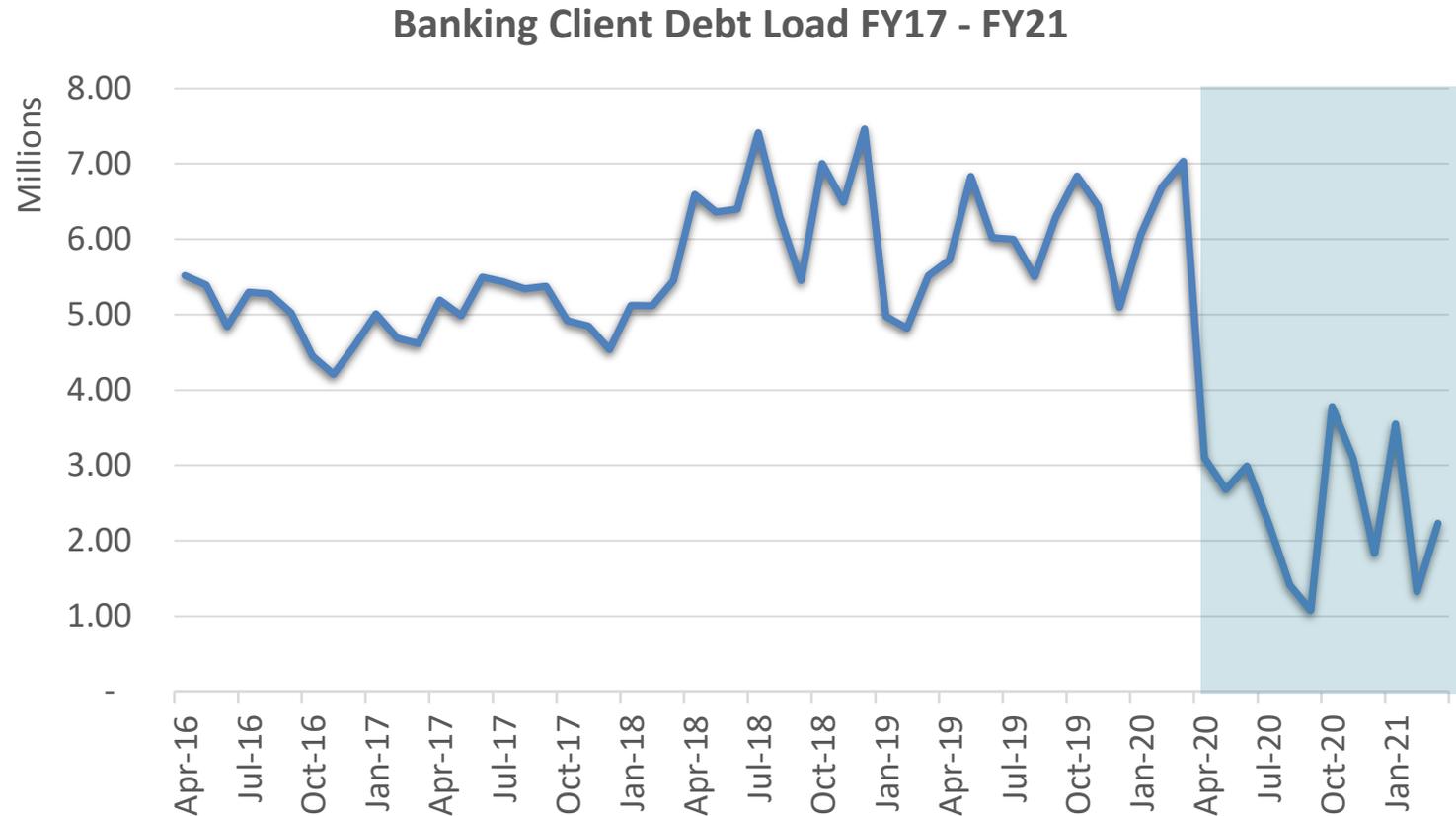
Number of independent contractors selling our debt collection products and credit management tools across NZ and Australia

Credit – Why are we good at it?

- **Debt Recovery** – represent all major trading banks and finance institutions in New Zealand as well as many major household brands.
- **Approach** – We are resolution experts that seek to rehabilitate customers
- **Brand protection** – During Covid-19 protection of our clients brand has been a priority due to potential reputational risk.
- **Expert Guidance** – Working closely with SME clients across many industries and provide expert guidance on credit management issues.
- **More than debts** – We collect debts but we also sell products that help protect the business eg. Terms and Conditions of Trade documentation.
- **Connected** – Helping clients load their debt faster - online and through connectivity with cloud based accounting apps:



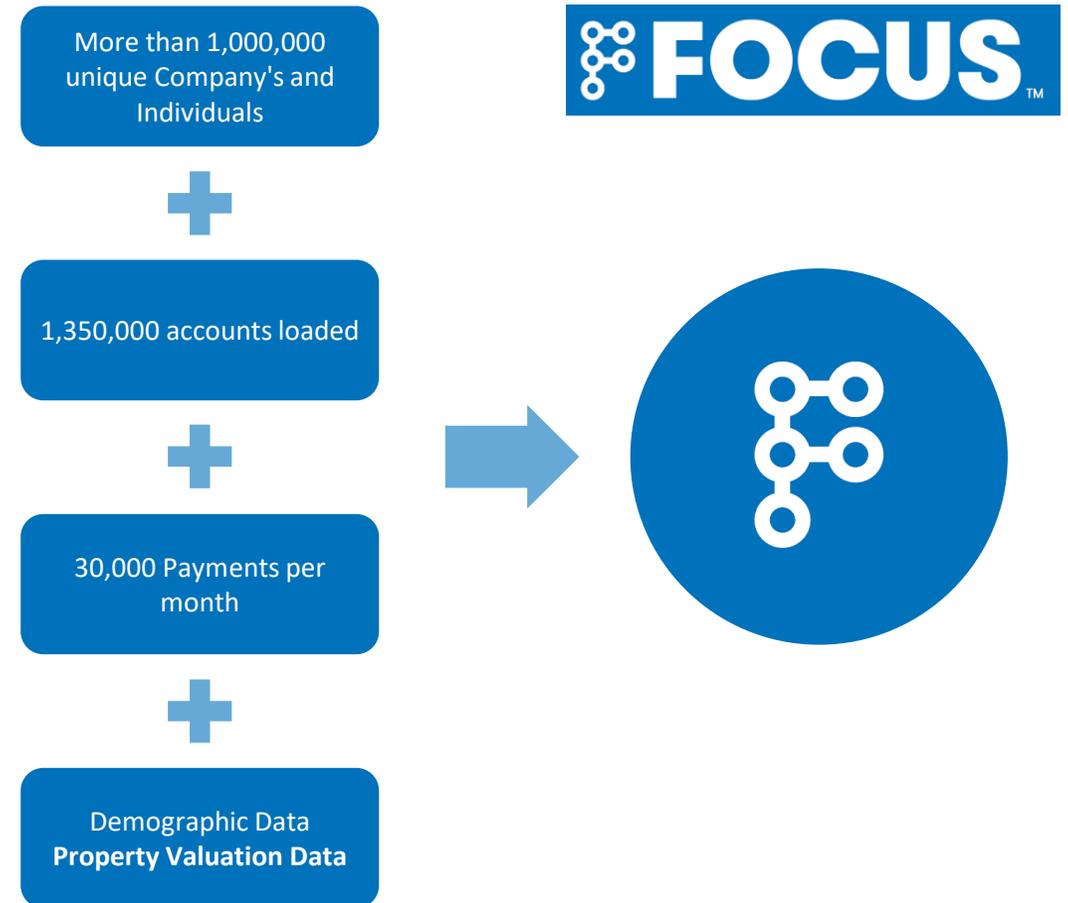
Impact of Covid-19 on Corporate Debt Load



- Significant reduction in debt load due to covid.
- All major banks except 1 ceased actionable debt load from April 20.
- Additional lockdowns caused uncertainty and caution amongst all banks.
- Our largest bank referrer being the most cautious with no contact instruction in place from April 20 to March 21.
- Debt load recovering back to historical levels... "March 2020 starts now"

Data Focus – Using Data to Improve Results

- Our proprietary “propensity to pay” score:
- A key element of our contact strategy used to segment customers with the aim of delivering recovery results faster.
- Uses cohort, payment, and behavioural information from multiple data sources.
- Proven results delivering greater resolution and credit repair outcomes for customers.
- Continuous improvement as data enrichment occurs through time; property valuation data will be added Q2 2021.



Growth Focus – Credit growth priorities

- Grow SME Debt Load through targeted advertising & marketing activity
- Increase value of RESOLVE portal to enable self-service, 24/7 resolution for debtors
- Increase use of data to improve contact strategies via FOCUS
- Build efficiencies through digital and data investments...data will be at the centre of everything we do.

Questions

Funding the Business

Aaron Saunders
Group CFO

The logo for Turners Automotive Group, featuring the word "Turners." in a bold, sans-serif font with a period, and "Automotive Group" in a smaller, lighter font below it. The logo is centered within a white circular graphic that overlaps the blue background and the car image.

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Balance sheet has capacity to support growth

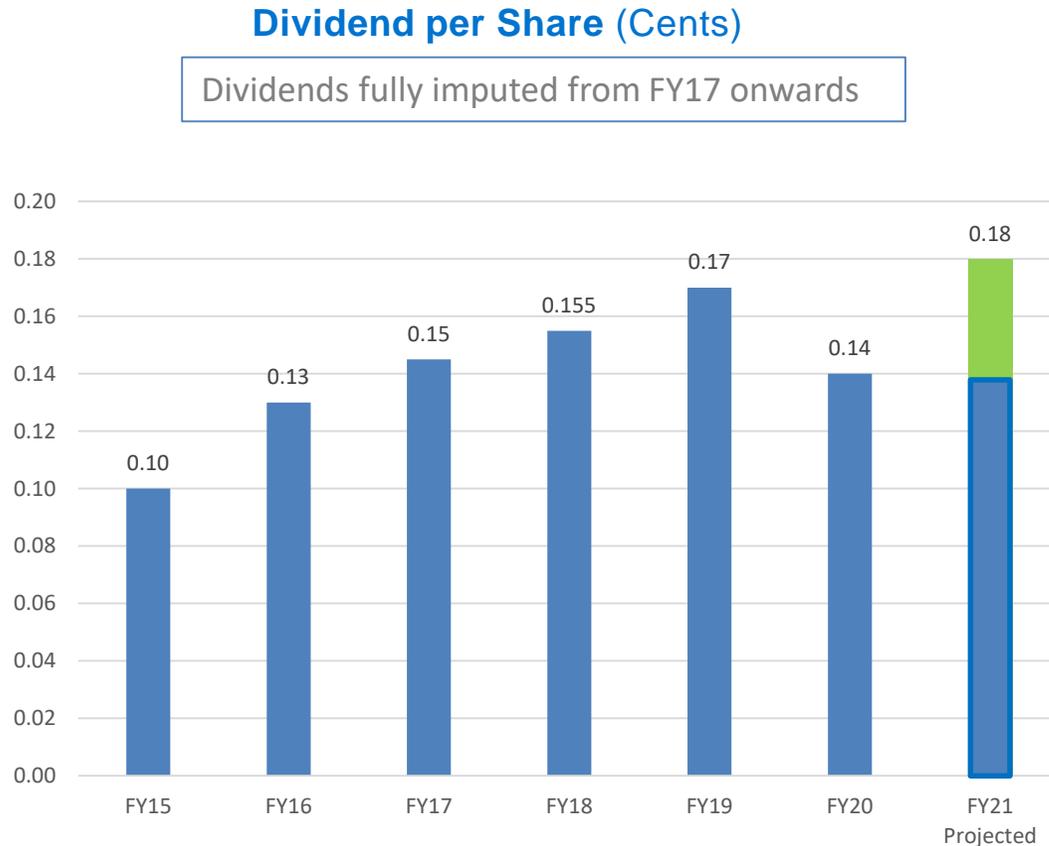
Funding Mix (\$M) as at Mar 31 2021	Limits	Drawn
Finance Receivables Funding		
Securitisation	276	239
Banking Syndicate	50	20
MTF Receivables (Auto Retail)	3	3
Less Cash		(5)
Net Receivables Funding	329	257
Funding Capacity		72
Corporate and Other Borrowings		
Corporate & Property - Banking Syndicate	70	44
Inventory - Banking Syndicate	30	9
NZX Listed Bond	25	25
Less Cash		(6)
Net Corporate Borrowings	125	72
Funding Capacity		53

- Our balance sheet is robust with capacity to support growth plans;
 - The group continues to operate well within its bank covenants
 - In March 2021, both banking facilities have been extended with an increase in the securitisation warehouse facility from \$250m to \$300 million
- 78% of total debt in business relates to finance receivables.
- Oxford Finance has an equity to total assets ratio of 20%+ and currently has capacity to underpin a further 18 months growth in the finance book.

Capital Allocation – high level thinking

- Organic growth to be funded via retained earnings and additional debt
- Clear message from market that shareholders want yield and growth supported from existing capital base
- Current dividend policy of 60% to 70% NPAT to be maintained
- Capital allocation broadly prioritised as follows:
 - Digital initiatives across the Group largely assumed to be opex, supported by some capital to be allocated to support growth and future proofing
 - Oxford Finance – growth requires capital alongside debt to grow receivables ledger and profits
 - Auto Retail businesses – footprint expansion can be funded largely through debt (lease premises and floorplan finance for inventory), some capital investment required for fit-out of retail sites
 - Property – de-risks the auto business through control of strategic sites and cost base plus provides opportunity for long term capital growth.
- We will continue to work on initiatives to make Turners Auto Group more capital efficient

Turners has a strong and sustainable yield



- Updated guidance issued in February of FY21 Net Profit Before Tax (NPBT) to be at least \$35 million (compared to January 2021 NPBT guidance of \$33 million to \$35 million).
- These strong results have confirmed the directors' confidence to project a full year dividend of 18.0 cents per share.
- Based on a share price of \$3.45 this is a gross yield of 7.2% pa
- Directors declared a Q3 dividend of 6.0 cents per share (fully imputed) taking YTD dividends to 14.0 cents per share.

Environmental, social, and governance (ESG)

- **The focus through FY21 has been on delivering on the “social” pillar of our ESG strategy. This includes the following initiatives...**
 - Health and safety of customers and staff during Covid-19
 - Implementing and employee engagement measure (Peakon)
 - Dealing with 1,700+ customer hardship situations in Oxford Finance and successfully rehabilitating 96% of these over the last 12 months.
- **In process of establishing + measuring emissions targets and a number of initiatives underway already**
 - Board ESG subcommittee established
 - Turners help in getting old and unusable vehicles off the road through our Damaged and End of Life vehicle business, helping to take 25k cars pa off the road...which are generally higher emitting. For every car we import at 8 years old we are taking an average of 5 x 20 year old cars off the road.
 - We are also piloting solar power installations in two of our sites and have committed to rainwater retention systems
 - We have launched vehicle subscription with a particular focus on Electric Vehicles in partnership with EECA

Questions

Summary+ Overall Q&A



Turners.
Automotive Group

Wrap-up - Building a quality business



Auto retail

- Margin improvement through supply initiatives
- Continued optimisation for retail eg. new sites in Westgate, Dunedin



Finance

- Finance continued focus on targeting high quality borrowers, attracting 50%+ of new lending in premium risk business
- Continue to make investments in digital and system integration



Insurance

- Good progress in building out distribution
- Claims ratios continue to improve



Credit/management

- Manage cost base in reduced debt load environment
- SME focus: integrated with key systems (eg. Xero / MYOB)

Growth Focus - Four key areas underpinning earnings growth

We have found the right formula, and will optimise further ...

This gives us confidence in continued earnings growth through the cycle

1. **Retail optimisation**
2. **Vehicle purchasing decision-making**
3. **Premium lending**
4. **Insurance system development**



Turners Cars

sell for over 50 years.

Turners
Certified Vehicle

EPK481