



18 November 2021

# humm group limited (ASX: HUM) 2021 Annual General Meeting CEO's address

The vision of **humm**group ("the Company") is to be the favoured way to pay for bigger purchases. It's as simple as that.

It's a vision that speaks to both our future and our heritage, spans our entire suite of products, and capitalises on our strengths in funding and securitisation.

## Commitment to shareholders

Before turning to our FY21 performance, I'd like to make clear that we are totally committed to growing shareholder value.

It is our objective to be able to return cash to shareholders while still growing and importantly, we will carefully manage shareholder capital committed to our growth plans.

These are our commitments to you.

## Our achievements

We have come a long way in the three years since we announced our new strategy focused on simplifying and growing the business. We now have a single platform serving everybody from Gen Z and millennial spenders through to young families and SMEs. **humm**group finances everything from life's little luxuries through to significant purchases.

**humm**group has a proven ability to scale.

In the last three years we have profitably grown:

- Our BNPL business - hitting over \$1b in volume in FY21 for the first time;
- Our Commercial business - which is now on a pathway to \$1b in volume;
- Our customers to 2.7m; and
- Our BNPL merchants to over 20k.

We have also proven our ability to deliver technology transformation. We have:

- The swiftest credit decision in market: it takes only 3 minutes to apply for up to \$30k;
- Fully digitised the customer experience: with a 4.8 app rating;
- Replatformed our BNPL stack for UK and Canada and will be shipping this back to Australia shortly; and

- Continually rolled-out new features to drive engagement and transaction frequency to 19 times a year across our consumer-facing products in Australia.

We have also demonstrated continued efficiency gains, making us leaner and more agile as we grow.

- We remain committed to a sub 40% cost to income ratio;
- We've reduced full time employees by over 30% since December 2018; and
- In two years, operating expenses excluding marketing and depreciation has reduced from \$151m to \$134m.

Finally, we have improved capital efficiency by 210 basis points to 13.9%<sup>1</sup> over the last three years and reduced corporate gearing from 36% in June 2018 to nil in June 2021.

## FY21 performance

Looking to our FY21 performance, **hummg**roup reported a Cash Net Profit After Tax ("Cash NPAT") of \$68.4m.

**hum**m, **bundll** and our new product **hummp**ro make up our BNPL segment and delivered volume of over \$1.0b, up 31.3% on FY20. This reflects volume performance in **hum**m Australia, particularly in 'Little things', **hum**m Ireland, and the increasing contribution from **bundll** and **hummp**ro. This translated to Cash NPAT of \$1.2m in FY21 although this included significant investments in new products and markets. Excluding these investments, Cash NPAT was \$22.8m.

Our Australia Cards volume of \$416.9m, was down 30.1% and reflects the COVID-19 impacts on merchant activity, particularly in travel. Despite the decrease in volume, Cash NPAT of \$16.8m increased 121.1% from better credit performance and the reversal of credit provisions with less customers in hardship.

New Zealand Cards volume of \$695.4m was down 7.4%, largely attributable to the impact of COVID-19 on long-term interest free travel merchant activity, with everyday spend up. Cash NPAT of \$28.1m represented an increase of 28.9%, largely as a result of improvement in impairment losses from the write back of COVID-19 provisions.

With borders reopening, we expect our Cards businesses to be a beneficiary of the pent up demand for travel. We are working closely with our travel partners and in constant dialogue about how we approach the reopening. While it is too early to predict the volume expected over the coming years, the common theme with our travel partners is one of excitement around the future of travel.

In all, these consumer facing products collectively generated \$2.1b in volumes in FY21 and we have only just begun to make inroads into an almost \$2 trillion addressable market.

Finally, our Commercial and Leasing business was a strong performer during the year, delivering volume of \$540.3m, up 55.6% on FY20. The uplift in volume was driven by the continued momentum in **flexicommercial** Australia following the successful shift in strategic focus towards small to medium enterprise lending via the broker channel. Cash NPAT of \$22.3m increased 431.0%, predominantly as a result of the partial release of the COVID-19 provision.

While we have been busy generating volume, we have also maintained a sharp focus on our credit performance. Across **hummg**roup, we have a superior credit decision engine delivering net loss / average net receivables of 3.5% in FY21 down 60 basis points on FY20. This is the direct result of continued investment in our proprietary decision engine to improve credit performance.

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<sup>1</sup> Average direct capital employed / average net receivables.

The strong FY21 results and the platform we have built give us the confidence to invest in our strategy which is designed to support and accelerate our long-term growth.

## 1Q22 performance

Let me now speak briefly about the trends we have seen in 1Q22 before moving on to discuss our strategic priorities and our medium-term growth focus and targets.

The first quarter saw a solid volume performance across all our lines of business. **hummg**roup delivered 1Q22 volume of \$763.3m, up 39.6% on pcp.

- Our BNPL segment delivered volume of \$308.8m in 1Q22, up 44.5% on pcp.
- Our Australia and New Zealand Cards businesses delivered volume of \$249.4m, up 7.6% on pcp despite continued international border closures.
- Finally our Commercial and Leasing segment delivered volume of \$205.1m in 1Q22, up an impressive 102.2% on pcp.

## Strategy

Turning to our strategy, **hummg**roup has four areas of focus that will support our future growth. The significant work over the prior years has positioned us to put our firepower behind these growth initiatives and expand our customer numbers, merchant numbers and addressable market – both locally and abroad. These initiatives will underpin our ability to reach our medium-term targets.

We will:

- Expand the reach of our instalment payment core by attracting new merchants and platforms in our current markets;
- Drive customer engagement and transaction frequency – building our products that are loved and used every day;
- Find new audiences through partnerships for our innovative products; and
- Expand into new markets internationally through a considered and differentiated strategy that will appeal to a broader range of retailers and customers than traditional buy now pay later (“BNPL”) players.

We’re now seeing technology, banks and loyalty programs looking to enter the BNPL space to capitalise on the structural shift towards fixed term instalments with proven BNPL providers. This is because we are closer to the customer – bridging the relationship between shopping, financing and transacting on the lifestyle they want.

In FY21, **hummg**roup has focused on finding new audiences through partnerships for its innovative products. We are very pleased today to announce a new, 10-year partnership with Air New Zealand to offer a range of financial services for Airpoints members in New Zealand.

‘Air New Zealand, powered by **hummg**roup’ will be coming to customers in 2022 with our first product expected to launch then.

This partnership will tap into the large and engaged Airpoints loyalty database. Air New Zealand is seen as one of the world’s most innovative airlines, and they’ve chosen one of the world’s most innovative finance companies to partner with.

For Air New Zealand, we will have an outsourced model in place where **hummg**roup manages the product day to day and earns fees based on key metrics. Marketing and distribution sits with Air New Zealand.

We have also previously announced strategic partnerships with banks (Westpac NZ), loyalty programs (Velocity Frequent Flyer), retailers (Mitre10 and Home Hardware) and schemes (Mastercard®) to grow **hummg**roup’s customer base and distribution reach.

Turning to international expansion, the United Kingdom and Canada represent strategic opportunities for **hummm**'s differentiated offering in bigger ticket, longer term instalment plans. In 2H21 we launched **hummm** in the UK and we will be able to finance up to £3,000 in the coming days. We will also be live in Canada imminently, with a focus in both geographies on home and home improvement, healthcare, automotive, and luxury retail.

The addressable market opportunity of each target vertical will be captured organically and via a number of strategic software partnerships and integrations. These partnerships provide the ability to scale with minimal investment and represent a key pillar of **hummmgroup**'s growth strategy.

**hummmgroup** now has an interest free instalment product for every purchase occasion that will drive the way our customers live, shop and budget.

At the FY21 results, we outlined for the first time our cross-sell strategy. Over the last few years, we have streamlined our shopfront and a lot of hard work has been undertaken to ensure we can cross-sell our products and have a single customer view.

While the cross-sell percentages as at FY21 are encouraging, we believe there is a significant opportunity across the portfolio, both to increase the number of products our customers interact with as well as the overall growth in customers.

### Medium-term targets

With a broad and profitable proposition and a track record of executing on our strategy we are confident in our medium-term targets which we are defining as a 3-4 year time horizon for the business.

Over that period, we plan to more than double our FY21 volume driven by customer numbers, average transaction values and frequency of transactions across the core growth portfolio. This will translate to approximately doubling of gross income and average net receivables and delivering over \$100m in Cash NPAT.

Finally, with the strong uplift in gross income as well as managing our costs carefully, with an initial period of expansion, we expect our cost to income ratio to be below 40%.

### Investment checklist

Before handing back to the Chairman, I want to briefly reference our investment checklist. We use this to guide our decision-making and to help us carefully manage shareholder capital committed to our growth plans.

When we invest for growth, we ask ourselves these questions:

*Will this investment enhance our already-strong unit economics, allowing us to continue to self-fund our growth now and into the future?*

- We have demonstrated this through the new verticals the Company has entered into in recent years including dental, automotive and luxury retail where there is less competition and stronger profitability.

*Will it maintain flexibility in our business model? Does it allow for the continued evolution of technology and consumer preferences? Does it allow us to be nimble?*

- We introduced **hummm**/TAPP in June 2021 removing the need for merchants to perform in-store integration and giving **hummm** customers more places to shop.

*Does it stretch our expertise and our competitive advantage further? Does it differentiate us in the market?*

- We announced our entry into the virtual power plant market with LG Energy Solution to accelerate the adoption of solar and battery technologies and make renewable energy more affordable to Australian homeowners.

*Does it improve our capital efficiency?*

- We issued over \$1b of asset-backed securities in FY21 and over \$600m in FY22 year-to-date.

*And will it improve returns to shareholders over the medium and long-term?*

- On this we are exploring the divestment of the New Zealand Commercial business subject to any proposed sale meeting management's valuations expectations.

This highlights our focus on decisions that make a difference and the lens through which we consider our investments to facilitate future returns for our shareholders. This will be in the form of both dividends and growth.

As the Chairman has flagged, we were pleased to announce at our recent strategy day that **hummg**roup will return to paying dividends in 1H22, with a targeted payout ratio of 30%-40%.

### **In closing**

I would like to conclude by acknowledging our whole team across Australia, Canada, Ireland, New Zealand and the United Kingdom. Many of them have worked tirelessly to ensure our customers and merchants continue to be well supported, especially with ongoing lockdowns and the prolonged effects of COVID-19 on the jurisdictions we operate in.

As we emerge from the pandemic and grow, we're putting significant firepower into our marketing efforts and product experience, actively shaping how people will buy in the future.

**hummg**roup is a diversified business with no drawn corporate debt and a strong balance sheet. I'm excited about the future, as we continue to focus on generating sustainable profit to support the Company's local, international and partnership growth strategy.

**-ENDS-**

Authorised for release by Belinda Hannover, Company Secretary.

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### **ABOUT HUMMGROUP**

**hummg**roup is revolutionising the way people pay. **hummg**roup has developed some of Australia and New Zealand's most exciting and accessible consumer finance products including **hum**m, **bundll**, **hum**m90 and **hum**mpro. **hummg**roup continues to design products around the core needs of financially savvy consumers spanning millennial spenders through to young families and SMEs. **hummg**roup facilitates purchases for over 2.7 million customers and operates in Australia, New Zealand, Ireland and the United Kingdom.