16 November 2023

humm Group Limited (ASX: HUM) 2023 Annual General Meeting CEO Address

Thank you Chairman. Good afternoon and welcome to **humm**group's 2023 AGM.

It's great to address you all today as CEO rather than sitting on the bench as a Board member.

I was excited to step into the CEO role in June of this year given **humm**'s strength in SME asset and consumer finance. There is great potential within this business and I'm looking forward to realising it with the support of the Board and management team.

Over the last six months, my focus has been on realigning the business around the customer, primarily by organising the teams around local markets, prioritising our profitable SME asset finance, accelerating work around our customer value proposition, and reducing unnecessary cost and complexity from our business. Our goal is to deliver the products and services that matter most to our customers, brokers and merchants so we become a part of their everyday lives.

As macro-economic conditions continue to fluctuate, we need to focus on providing outstanding customer outcomes, the best value for money and operating as efficiently as possible to continue delivering value for our shareholders.

In response we are refocusing our efforts on customer value propositions, reviewing IT platforms and operations, evaluating all operational expenditure and stopping non-essential expenses to provide the appropriate foundation for growth.

FY23 HIGHLIGHTS

For the year ended 30 June 2023, the company delivered $75m in normalised cash profit (after tax). This allowed us to pay a fully franked final dividend of 1.0 cent per share bringing the FY23 full year dividend to 2.0 cents per share.

We also announced that we will be conducting an on-market share buy-back of up to $10m across FY24. The buy-back has commenced and we have been actively purchasing shares in market and will continue to do so, subject to market conditions.

We continued to invest and enhance our superior credit decision engine, which has delivered net loss to ANR of 1.8% in FY23 – a historic low for the group – a 60 basis points improvement on pcp.

In the current environment, we are acutely aware of the need to manage our costs and we have already removed more than $18.6m, including a reduction in marketing, payroll and other operating costs.

Our balance sheet position is strong and remains a key differentiator in the market, with $112m of unrestricted cash, $1b in warehouse headroom and a well-diversified and sophisticated funding platform at 30 June 2023.

During the period, we grew our receivables book by over 27% to $4.2b, with the majority of it financing larger transactions for small to medium businesses and consumers. Less than 1% of our business is in lower transaction value point of sale payment plans.

FLEXICOMMERCIAL

flexicommercial is a leading provider of specialist asset finance in the market, with over $2.4b in receivables. Our average ticket size is $100,000, with an average loan life of 4.8 years, providing a diverse portfolio that can withstand fluctuations in individual sectors.

Our business primarily offers equipment finance to growing small and medium-sized enterprises ("SMEs"), which help them to fund the purchase of revenue-generating assets – our top three assets being transport, infrastructure and light commercial vehicles.

The landscape of SME lending is rapidly changing. For the first time, non-bank lenders have overtaken banks in providing SME loans.

Our focus is on delivering exceptional service to brokers, who are our sole channel. As a specialist SME lender, we specialise in asset finance for capital-intensive businesses, and we see opportunities to broaden our industry and product offerings.

We offer an exceptional SME experience with possible 24-hour approval and same-day settlement. 80% of deals are decisioned on the same day, up from 45% a year ago and 39% of approved deals are automated, making us quicker, nimbler and easier to work with than traditional lenders.

Our market leading speed to decision and speed to cash stands out in the broker channel and has been underpinned by an investment in technology which allows us to drive efficient decisions and differentiates us from traditional lenders.

As a result, **flexicommercial** delivered normalised cash profit after tax of $42.3m for the year, up 20% on FY22.

CONSUMER FINANCE

Our Consumer business comprises our Cards businesses in Australia and New Zealand and our Point-of-Sale Payment Plan businesses ("PosPP") in Australia, Ireland and Canada.

In FY23 we made significant progress streamlining operations and reducing costs, while improving profitability and growth in our domestic and New Zealand Consumer businesses while investing for growth in our global businesses.

As we committed to at our FY22 results, non-core small ticket products **humm** New Zealand and **humm**pro Australia and New Zealand have closed. All receivables have run-off, enabling those systems to be switched-off with costs continuing to be removed.

We have also substantially delivered on our cost out initiatives and removed $18.6m of costs and are on track to deliver $20-25m of annualised cost savings going forward.

Consumer repricing initiatives commenced in FY23, with a series of increases to merchant service fees, annual and monthly account keeping fees and interest rates in our cards businesses.

In the year ahead we'll have a strong focus on unit economics, capital allocation and profitable growth. This includes removing unprofitable merchants and driving yield improvements across our key verticals.

Finally, the business has been focused on returning to profitable growth in core larger transaction value volumes and card receivables. **humm** 'Big things' is back to growth, with volumes increasing 23% on pcp and we've seen a return to growth in AU Cards from increased travel spend.

Normalised cash profit for our consumer business was $32.7m, down just over 20% as a result of:

1. Higher funding costs across both the PosPP and Cards businesses with margin compression where our pricing increases lagged cost of funds increases.
2. Higher paydown rates and lower average interest-bearing receivables across our Cards businesses.
3. Competitive pricing pressures in PosPP business, which have begun to slowly abate.

CAPACITY TO FUND GROWTH

Over the last 12 months, our Treasury Team have worked alongside our banking and investment management partners to execute a complex funding plan in challenging financial markets.

humm has executed:

1. $1.0b in capital market transactions;
2. $1.4b in new warehouses or warehouse extensions; and
3. we have added $132m in Mezzanine finance capacity that allows us to fund and growth efficiently.

Following year end, we executed a $760m Private Placement which is the largest transaction we have executed to date and frees up additional capacity for growth in our Commercial business.

These transactions demonstrate our reputation and experience in the securitisation market and provides a stable platform for growth. In recent years, we have been focused on improving the capital efficiency of our balance sheet which has freed up capital for additional growth.

This has involved introducing mezzanine finance into our facilities which have had the effect of reducing capital employed in a warehouse from 20% to 5% and in the case of the Private Placement, capital employed of 2%. Introducing mezzanine finance has the effect of increasing interest expense but improving returns to shareholders and providing capacity for growth.

While the introduction of mezzanine finance across our warehouses is largely complete, we continue to explore options to drive growth in the business without the need to raise additional capital.

We finished the year with $112m in unrestricted cash and $75m undrawn in the growth facility. The cash usage during the period predominately represents our utilisation of capital to support the growth in our Commercial and Consumer businesses.

EFFICIENT AND EFFECTIVE USE OF CAPITAL TO DRIVE RETURNS

Our objective is to balance growth and returns to shareholders. To date we have grown our balance sheet prudently while maintaining credit losses.

We intend to continue paying dividends with a payout ratio of between 30-40% of free cashflow – being normalised cash profit after tax adjusted for forecast Capex and working capital requirements.

Further we announced a buy-back of $10m shares and commenced our buying in September 2023. We consider that these actions along with our focus on unit economics, capital allocation and cost out will deliver enhanced long-term shareholder value.

Q1FY24 UPDATE

I will now speak briefly about the trends we have seen in Q1FY24. At a group level, the first quarter saw volume from continuing businesses of $953m, up 8% on pcp.

Our **flexicommercial** business continues to deliver strong volumes and book growth with improved credit quality and net loss/ANR down 30 bps to 0.4% on pcp.

Q1FY24 Commercial volumes were consistent with the strong growth of prior periods, delivering book growth of 46% on pcp. Volumes for the quarter were affected by a surge in the month of June 2023, resulting from the removal of certain instant asset write off benefits, which drove customers to transact at the end of FY23, as opposed to in the FY24 year.

We also saw 9% growth in volumes for our AU and NZ cards businesses which drove book growth of 6% on pcp. In our large transaction PoSPP business we saw 30% volume growth and 15% book growth on pcp across our continuing products in **humm** AU 'Big things', Canada and Ireland.

At a Group level, we have seen our net loss to ANR improve by 10bps to 1.6% compared to pcp, with Commercial improving and Cards AU and NZ remaining flat at 3.5% net loss to ANR. Net loss to ANR for **humm** AU (large transactions) increased by 60bps to 3.5% due to a longer tail of seasonality in the portfolio. We expect our targeted credit initiatives will see net loss to ANR reduce over the course of FY24.

Net income represents the total of net interest income (after funding costs) and fee and other income. Base interest rates more than doubled from an average of 1.85% in Q1FY23 to 4.1% in Q1FY24. Despite these increases, we delivered 16% net income growth in our Commercial business and 3% net income growth in our Cards businesses as a result of focused pricing initiatives.

Revenue growth of 19% in our PosPP businesses was offset by the higher funding costs which resulted in a 10% reduction in net income. The PosPP result was impacted by competitive pricing which continues to work through the back-book and favour longer dated, better credit but lower yielding solar and health merchants which benefit from lower loss rates in future periods.

COMPETITIVE ADVANTAGE AND FY24+ PRIORITIES

Given its strength in SME finance and history in consumer finance, **humm** is an attractive business. Our deep relationships across merchant and broker networks drive originations, while our superior credit risk management consistently delivers low net loss rates. Our strong funding platforms mean we have sufficient capacity to deliver growth.

Our immediate priorities are improving the technology environment and removing unprofitable products and relationships so we can allocate capital to businesses generating the highest return.

In our Commercial business we will continue to invest in process and technology improvements to retain our competitive edge in credit decisioning. A continued focus on credit management is designed to deliver low loss rates across the portfolio as we further grow the business.

In our Consumer business we continue to restructure the business and switch off unprofitable merchant relationships where appropriate. We are in the process of rolling-out our Australian PosPP product onto a single global platform which will increase our competitive advantage and deliver enhanced profitability. We expect that co-branded distribution arrangements will grow our credit card portfolio.

Canada and Ireland offer untapped growth potential and scale that we are well-placed to leverage. We will continue to invest in both markets.

At a corporate level we continue to target cost savings and minimize the stranded costs of exited products.

OUTLOOK

hummgroup will focus on driving profitable growth across its operations, supported by its strong balance sheet position and resilient credit performance, ensuring improvements in unit economics and capital allocation.

We will continue to review and remove unnecessary cost and complexity from the business and execute on its strategic capital initiatives to deliver shareholder value in the year ahead.

– ENDS –

Authorised for release by the **humm**group Board of Directors.

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ABOUT HUMMGROUP

humm Group Limited ACN 122 574 583 (ASX: HUM) ("Company", and with its other group and consolidated entities "**humm**group" or "Group") is a diversified financial services company that provides instalment plans which enable businesses and consumers to make large purchases. **humm**group operates in Australia, New Zealand, Ireland, Canada, and the United Kingdom. Its principal activities include the provision of Commercial Lending in Australia and New Zealand; Point of Sale Payment Plans; Australia Cards (**humm**®90, Lombard and Once); and New Zealand Cards (including Farmers Finance Card, Farmers Mastercard®, Q Card, Q Mastercard® and Flight Centre Mastercard®).