

## Scottish Pacific AGM Update

### November 2016

Thank you Chairman.

I am pleased to be making our first AGM presentation as a public company.

Before I talk about our business in more detail, I must start by expressing my extreme gratitude to all directors, past and present and all the staff of Scottish Pacific, for helping us get in to the position we are today.

The 18 months to July 2016 were an exciting time for all those involved at Scottish Pacific. To get to the following achievements, took a great deal of effort and in some cases more than 8 months, so to finish the work flows with an IPO on 13<sup>th</sup> July was an incredible accomplishment.

### Our Business

The fundamentals of our business haven't changed since Scottish Pacific started in 1988. We provide working capital to businesses through the provision of debtor finance (factoring/invoice discounting), in a way that enables us to assist our clients in all economic conditions and throughout the life of their business.

Working capital is an essential part of the success or otherwise of any business and hence there is always a demand for our services.

The very nature of debtor finance, sees us recovering the funds we provide to our clients, through payments made by their customers for goods or services provided by our clients. This is a fundamental difference between what we do and other traditional working capital facilities.

To provide these facilities on a consistent basis, as we have done for so many years, requires a commitment to invest in people and processes, which results in the low bad debt history that we have established for so long.

I am most excited by the new products and offerings we have brought to the market in recent years and we will continue on that path. These will become an increasing percentage of our profits, supplementing our growing core debtor finance products and expanding our target market even further. These new products have minimal or no capital requirements and deliver higher returns than our core business.

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## **Year in Review**

During 2015, Scottish Pacific was approached by a number of parties that culminated in us acquiring three of our competitors. All three had different reasons to sell. With these acquisitions, came the opportunity to diversify our funding structure, which in some respects was more challenging than the business acquisitions, or even the ASX listing.

With the funding diversification now complete, I am pleased to say we have ended up with three warehouses, two of which are long-term relationships, some new mezzanine debt and a corporate facility. As part of doing all of that, we have also introduced three new funders to the group.

The three acquisitions, all brought their own benefits. These included new products that can grow with our investment, new referral agreements with two banks and Scottish Pacific being seen as a serious player for the larger deals in our chosen market.

Two young products are our Selective Invoice Finance and Bad Debt Protected facilities. We have given these products more focus and additional resources. This will see these areas grow in the future with most upside visual in the FY18 numbers rather than FY17.

New referral agreements with two banks, are already showing positive signs, leading us to make additional investment to better service these opportunities.

The largest benefit has been scale. The client numbers have grown to over 1700, the funds outstanding to clients is now over \$800m.

Our vastly improved operating leverage provides the opportunity for us to be more price competitive and still improve our PBIT margin.

Our biggest challenge was always going to be the merging of staff, through the acquisitions. A great deal of planning went in to all areas of the integration process, including measuring the culture of our organisation.

From the 31 December 2015 when we completed our first acquisition to 27 May 2016, when we completed our third, we had moved all staff to one operating centre in each city in which we operate and by July, had even set up a new operation centre in Adelaide. This has extended the number of clients being managed locally by staff in their state.

No serious client attrition has been seen. This is testament to all our staff that continue to value our client and try to exceed their expectations.

Throughout the year, we also managed to pick up some awards recognising our contributions to businesses. For the third year in a row, Scottish Pacific was awarded by Advisor Magazine, Best Cash Flow Lender, non-bank and also picked up Best Trade Finance Provider, at the TFG Excellence Awards.

## **Growth Strategy**

The fact that we provide an essential service to businesses, being cash flow, is a fundamental contributor to our strength. Without our funding, these businesses cannot pay their wages or their suppliers. The

very nature of what we do and how we do it, means that we can help them through the ups and downs of their life cycle, but also through all economic conditions.

The growth drivers for our core business of debtor finance, is increased volumes of invoices handled and money advanced to our clients. These will be driven by the number and size of our clients.

We focus on three growth levers:-

- Improved market penetration with new clients
- The growth of existing clients
- Broader range of products

We are now investing more in finding new clients and how we service them. Our national marketing team has grown and the marketing spend is now directed towards attracting brand new clients, rather than on competing with other brands. Investments in our phone App to better service clients, digital marketing to attract more clients and simple online applications to assist in on-boarding, are just some areas we have made improvements. Our enquiry levels in October 2016, were the highest we have recorded.

We now have increased financial and people resources to improve our marketing, improve how we do things and to develop new products. The upside will be increased referrals, more clients, improved products and better efficiency. All delivered much quicker than previously when resources were not as abundant.

A positive to our ASX listing and increased size, is that larger organisations are now seeing Scottish Pacific as a serious player in the business finance arena and we have seen an increase the number of such companies enquiring about our services.

### **Current Trading and Outlook**

We have experienced lower than expected levels of borrowing during the first four months of FY17, predominantly among some of our larger clients, who are borrowing less than expected.

The month of July 2016 saw a negative shift in client borrowings as a percentage of monthly turnover of approximately 6 percentage points. While we expected a negative impact in volumes in this month due to uncertainty created by the Australian federal election and we saw an uplift in volumes in August, September was a soft month. This continued in October. As a result, this has impacted gross income and hence Net Revenue is below expectations at this point in the Company's financial year. Accordingly, we have decided it prudent to review our forecasts, assuming borrowing levels (as a percentage of turnover) do not see any uptick during the remainder of FY17. This results in a decline in forecast Net Revenue of 7.5%.

As a result, we now expect to produce PBIT of \$40.7 million and NPATA of \$30.8 million for the year ended 30 June 2017 compared to the Prospectus forecasts of \$44.9 million (PBIT) and \$31.8 million (NPATA)

These lower levels of borrowing appear to be the result of certain dynamics amongst a small number of our larger clients. We have not seen a general softening in borrowing across our broader client base.

For the remainder of FY17, we expect to see continued growth in our book, but from a lower base today, than we anticipated.

In all other aspects of our business I am very happy. Margins are in line with expectations and costs and bad debt expense are lower than expected.

Importantly, the impacted clients are still active and their borrowing requirements in the future may increase. It is reassuring to note that we have received limit increase requests totalling \$57m from just 11 existing clients in the past 4 months. More broadly, the volume of new client wins is good and the pipeline remains strong. Client attrition numbers are only slightly higher than expected, with loan value to clients gained, 60% greater than for clients lost.