SOLVAR

# 1H FY24
# Investor Presentation

**20 February 2024**

**Scott Baldwin (Managing Director & CEO)**
**Siva Subramani (CFO)**

# Presenting Today

**Scott Baldwin**
Managing Director & Chief Executive Officer

**Siva Subramani**
Chief Financial Officer

# Agenda

- Highlights
- 1H FY24 Results
- Risk and Governance
- Outlook
- Questions

# Highlights – 1H FY24

**Revenue** ↑
**$109.7m**
up 5.9% on pcp

AU $87.0m + 14.2% on pcp
NZ $22.7m - 17.3% on pcp

**NPAT** (underlying) ↓
**$14.6m***

Statutory NPAT $13.2m
down 48.7% on pcp

EPS 6.3 cents

**1H bad debts** ↑
**4.2%#**
full-year bad debts expected to be within 3.5-4.5%

# annualised bad debt expense divided by gross loan book

**Cash collections** ↑
(Collection of principal & interest)
**$270.3m**
up 10.9% on pcp

**Loan book**** ↑
**$941.5m**
up 3.5% since 30 June 23

AU $769.7m +8.2% on 30 June 23
NZ $171.8m -13.5% on 30 June 23

**Originations** ↓
**$232.8m**
down by 13.6% on pcp

AU $215.8m -3.3% on pcp
NZ $17.0m -63.3% on pcp

**Asset Quality**

Lifting minimum credit acceptance criteria expected to lower Group bad debt profile

**Technology**

Driving simplification, AU on single loan management platform, investment into cyber resilience

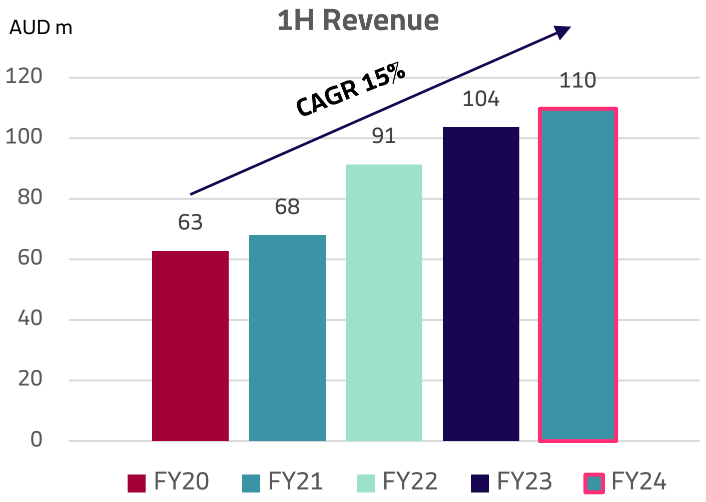
**Capital Management**

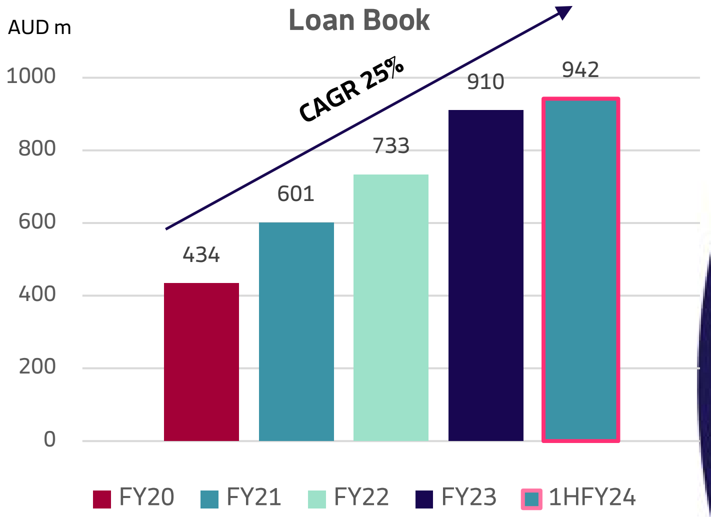
Interim **5.0 cents fully franked** dividend payable on the 19th April 2024

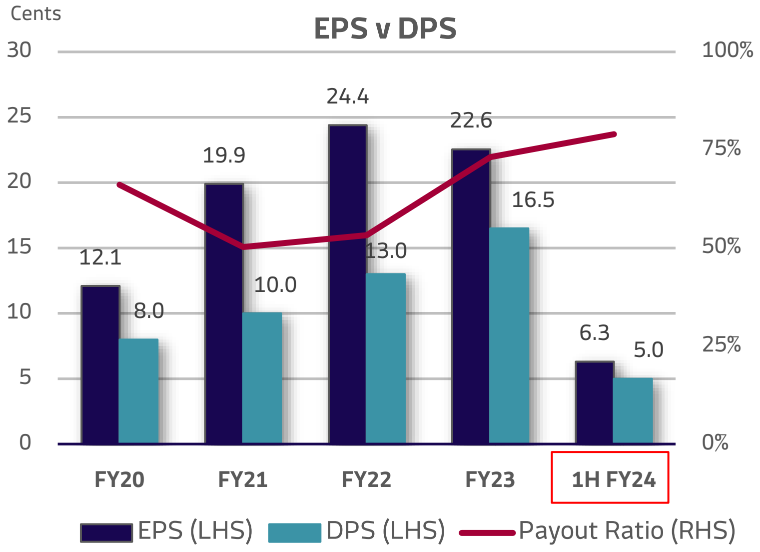
Net Tangible Assets - $1.58

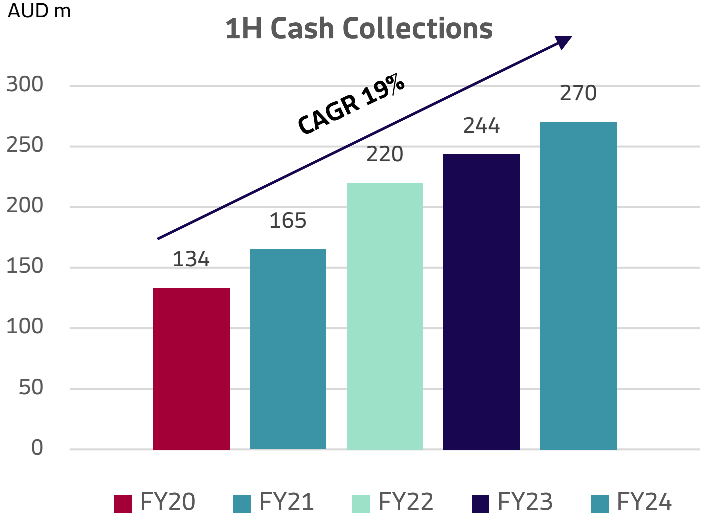
* After adjusting for legal & professional fees associated with the ongoing regulatory related legal action
** Gross loan book

# Group Performance

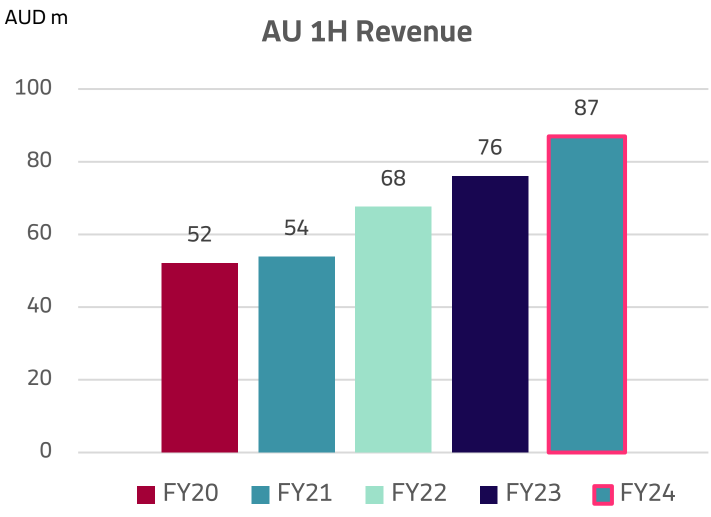


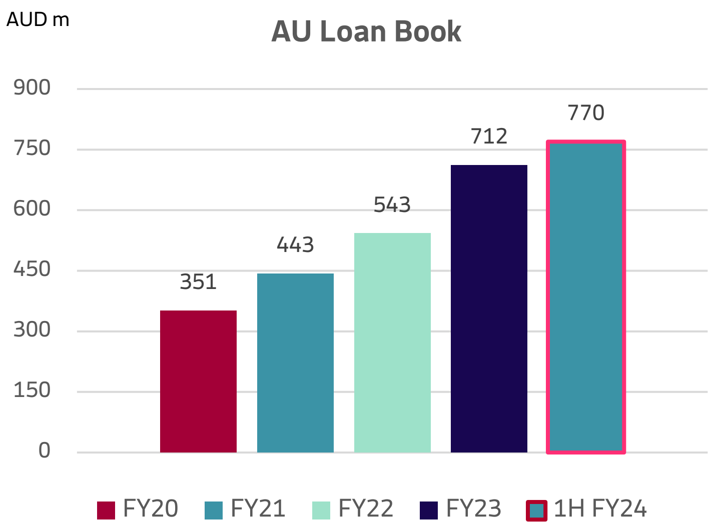



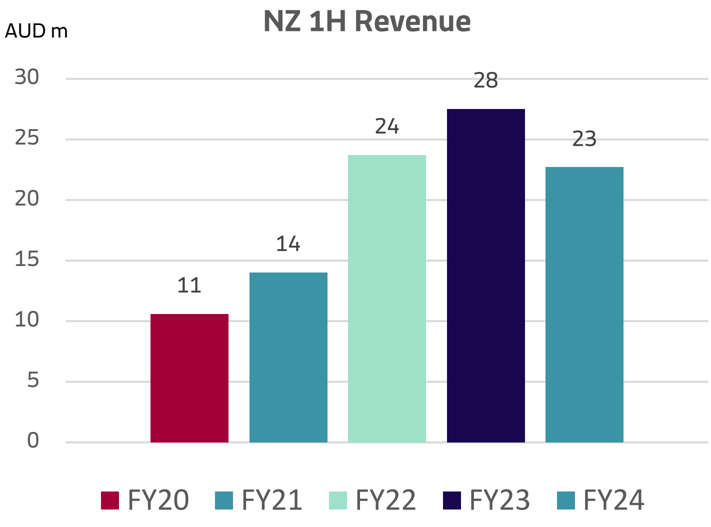



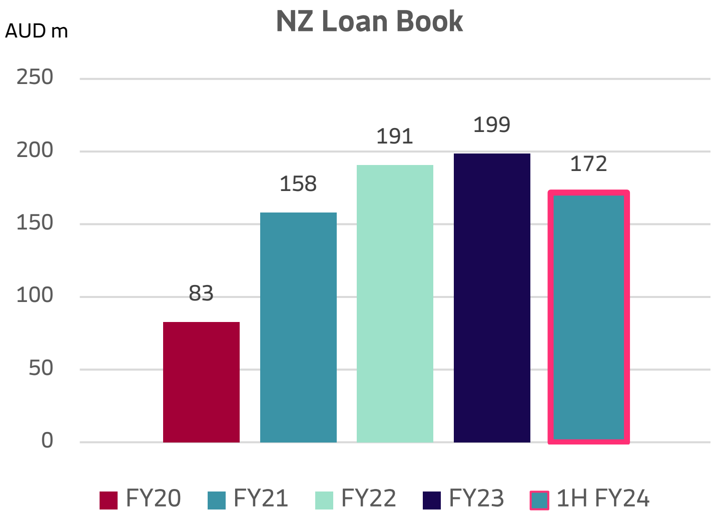




- Strong AU loan book growth is offsetting NZ contraction and lifting AU contribution to Group performance
- 1H record cash collections of $270.3m testament to resilient consumers and improving collections in NZ
- Disciplined repricing across the portfolio to lift margins, while maintaining target level of originations




# Country Performance

**Australia**

- Revenue growth up 14.2% to $87.0m on pcp
- Loan book growth up 23.3% to $769.7m on pcp
- Focus on lower credit risk new lending
- Productivity initiatives delivered
  - Simplified lending operations
  - Centralised loan management platform for AU operations

**New Zealand**

- Lifted minimum credit acceptance criteria given macro conditions with deliberate slow-down in originations
- Revenue down 17.3% to $22.7m on pcp
- Loan book down 16.4% to $171.8m on pcp
- Simplification initiatives underway to reduce funding partners, simplify product & technology and change executive team

# 1H FY24 Results

| Financial Results<br>*AUDm unless stated otherwise* | 1H FY24 (Underlying) | Adjustments | 1H FY24 (Statutory) | 1H FY23 (Statutory) | Growth %* |
|---|---|---|---|---|---|
| **Revenue** | **109.7** | **-** | **109.7** | **103.6** | **5.9%** |
| Bad debts, net | (19.8) | - | (19.8) | (14.5) | (36.2%) |
| Movement in impairment provisions | (4.0) | - | (4.0) | (2.1) | (94.5%) |
| Operating Expenses | (37.2) | (2.0) | (39.2) | (30.3) | (22.9%) |
| **EBITDA** | **48.6** | **(2.0)** | **46.6** | **56.7** | **(14.3%)** |
| **EBITDA margin** | **44.4%** | | **42.5%** | **54.7%** | |
| Interest expense | 26.7 | - | 26.7 | 19.1 | 39.8% |
| **NPAT** | **14.6** | **(1.4)** | **13.2** | **25.7** | **(43.3%)** |
| **NPAT margin** | **13.3%** | | **12.0%** | **24.8%** | |
| **EPS** | | | **6.31 cents** | **12.07 cents** | |
| **DPS** | | | **5.0 cents** | **7.5 cents** | |

* Growth compares underlying 1H FY24 vs statutory 1H FY23, % calculation performed based on figures in Appendix 4D.

# Financial Results

- Revenue increase driven by:
  - Loan book growth from taking market share, particularly in Australia
  - Passing on interest rates increases
- 4.2% bad debt, annualised, deterioration primarily driven by NZ subsidiary, expected to normalise in 2H
- Risk, governance and cyber employee costs uplift not expected to be replicated in FY25
- Higher operating expenses is driven by:

  (i) employee expense (uplift reflective of wage inflation, capability improvement with dedicated functional experts, particularly in governance and cyber security)

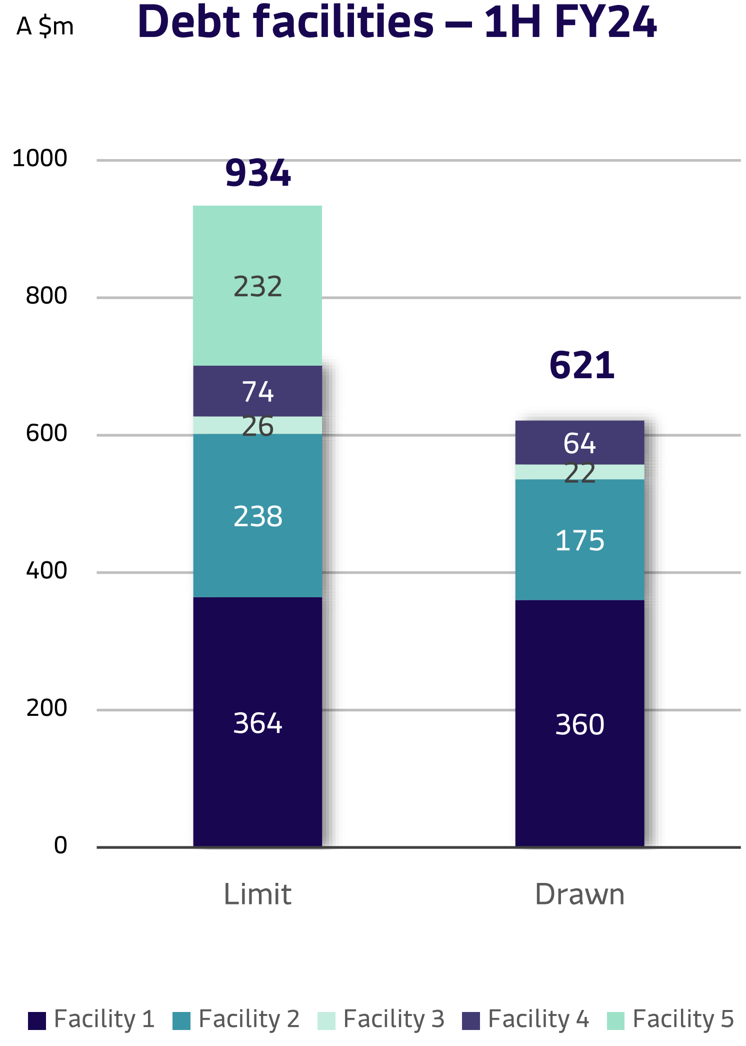
  (ii) Regulatory related legal action ($2m); normalised to reflect the underlying performance of the Group

  (iii) Supplier pass through of inflation in costs
- Annualised 1H return on net tangible equity of 8.0%.

# Debt Facilities

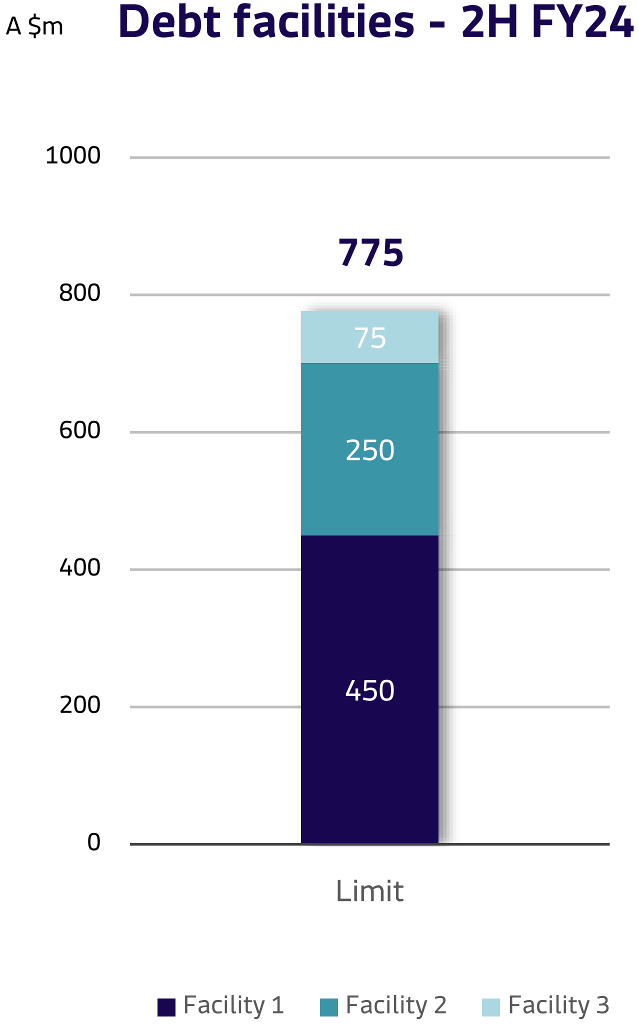
Current

Debt facilities – 1H FY24

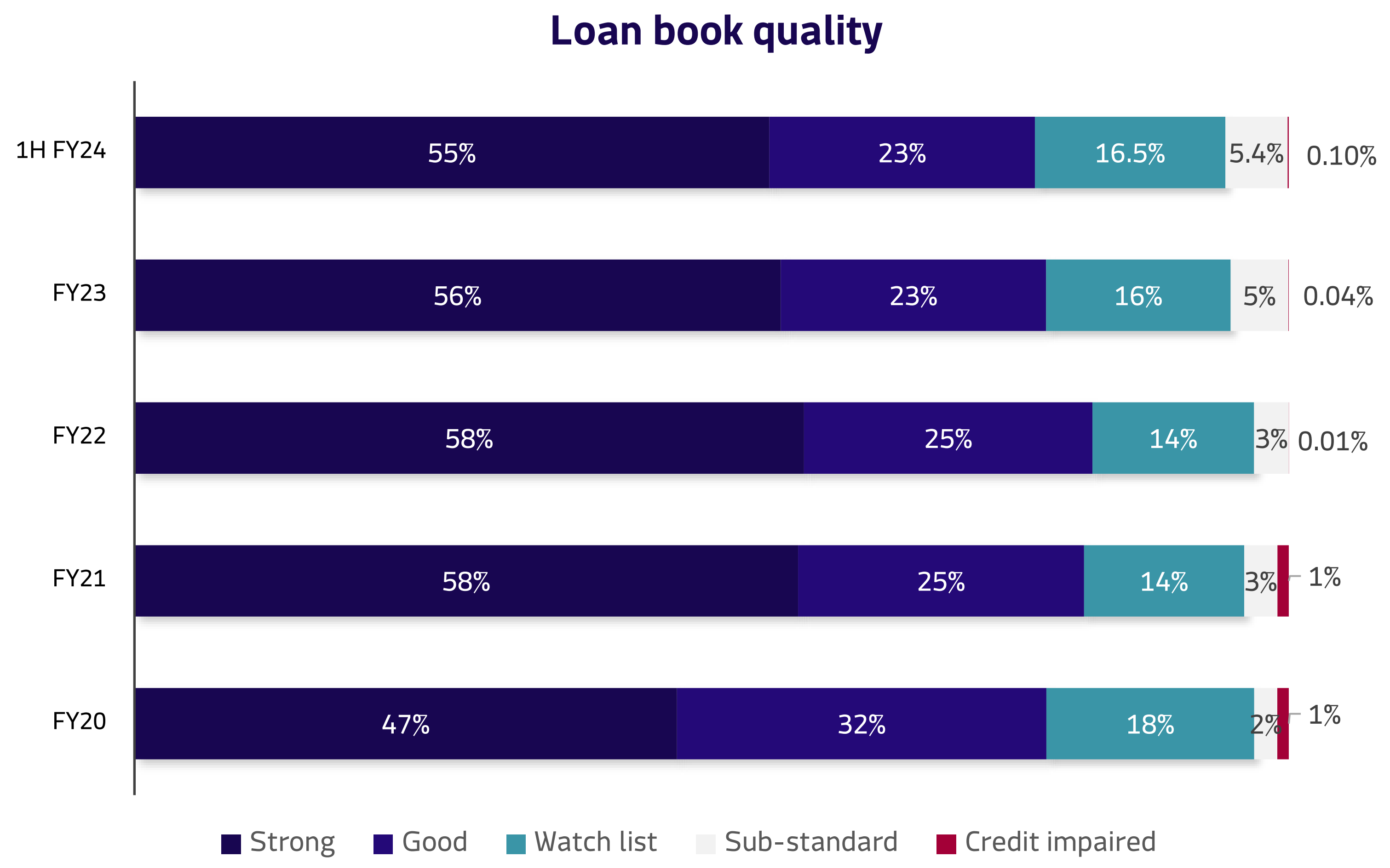



Forecast

Debt facilities - 2H FY24




- Diversified facilities (including major Australian, New Zealand and international banks)
- Consolidation in funding partners driving simplicity
- Anticipate replacing Australian debt funding facility in 2H to right sizing with Australian growth focus. Advanced negotiations underway
- $127.0 million of cash ($70.8 million of restricted cash)




# Credit Quality

- Credit quality of the portfolio is better than pre-COVID levels despite significant increase in inflation and tight macroeconomic factors
- 78.0% of portfolio is in 'Strong and Good' credit quality category, 1.0% decline since Jun-23
- Increase in impairment provision in 1H as a result of loan book growth and a marginal decline in credit quality
- 1H bad debts at 4.2% (annualised) with FY24 expected to be within the target range 3.5% - 4.5%

# Risk & Governance Framework

# Regulatory Update

**Australian Securities and Investment Commission**

- No material change to the status of the regulatory action from the update provided in 2023 Annual Report & AGM
- ASIC has filed and served their evidence in December 2023
- Case management hearing conducted in February 2024
- We intend to defend the action and note that Money3 takes its responsible lending obligations seriously and continually looks to enhance its products and services to ensure we remain a best-in-class service provider

**Commerce Commission of New Zealand**

- On 18 January 2024, the Commerce Commission indicated it intends to file civil proceedings in relation to breaches of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) in relation to New Zealand subsidiary (Go Car Finance)
- Go Car Finance expects to receive the statement of claim from the Commerce Commission by the end of February 2024 and is unable to comment further

# Risk & Governance

- The Group has committed significant resources at enhancing our existing risk & governance operating model
- The investment is intended to future proof business growth
- Ensures that Solvar credit and operational risk management remain best in class
- Ensures that the Group can sustainably balance delivering the appropriate risk adjusted shareholder returns and customer outcomes

## Australia

- Lifted minimum credit acceptance criteria for new loans
- Focused growth in lower credit risk loans
- Increased compliance training (developed externally by an industry leading professional education provider) to strengthen understanding of responsible lending obligations and awareness of First Nations peoples

## New Zealand

- Lifted minimum credit acceptance criteria for new loans
- Increased engagement with industry and advocacy groups

## Group

- Introduced an internal audit function – third line of defense, independent assurance function
- Linked Executive Short Term Incentive program to completion of compliance training and key risk projects
- Review of technology risk and cyber security posture by an international consulting firm and implemented key recommendations to uplift resilience
- Commenced ISO 27001 accreditation
- Completed resource hiring of experienced risk and governance team

# Summary & Outlook

# Summary

### Funding

- Simplification of NZ funding facilities
- Commencing programs to reduce funding costs & complexity

### Operations

- Risk management review
- Investment and uplift in risk & governance operating model to future proof growth

### Risk adjusted margins

- Continue repricing program navigating lifting NIM v monthly volumes
- Lifting minimum credit acceptance criteria

### Productivity

- NZ productivity review targeting return to profitability in FY25
- Continued focus to extract synergies between business units

### Regulatory

- Management near term attention on resolving regulatory issues

### Growth

- Drive loan originations and loan book growth
- Continue organic growth in commercial lending
- Maintain tempo on potential acquisitions

# FY24 Outlook

## Macroeconomic

- Record demand for new vehicles driving strong growth in secondary markets
- High inflation persisting for longer than expected
- Market consensus that interest rates begin to fall in Australia in calendar year 2024 (1)
- Unemployment remains low in both markets

## Business

- Ongoing action to reprice new lending to lift margins whilst maintaining target level of new loan volume
- Group NIM evolving to reflect portfolio mix and overall higher loan book quality
- Reducing competition provides opportunity to take market share
- Near term focus on resolving regulatory issues, improving productivity, operational simplification

## Financial

- Loan book expected to be $970m - $1,000m
- Bad debt expected to be within target range 3.5-4.5%.
- New Zealand bad debt expense expected to trend down in 2H FY24
- Reiterate forecast normalised FY24 NPAT $25-30m

(1) RBA interest rates survey: Most economists tip bank to cut cash rate in September 2024 (afr.com)

# Questions

# Thank you!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# About Solvar

# The SOLVAR Group

AFS AUTOMOTIVE FINANCIAL SERVICES

money3

GoCarFinance
Goes way further

## Market Opportunity

Addressable market
$40+ billion [1]

1m new vehicles[2]
3m used vehicles[3]
sold annually

SOLVAR

$0.5 billion of
vehicles funded
FY23

1-2%
market share

## Specialist Lender

Consumer vehicles
87%

Commercial vehicles
5%

Personal loans
8%

~93% secured
loans

## Track Record

Operating over 20
years across
AUS & NZ

Management aligned
with shareholders

Profitable & paying
dividends since listing

>$2 billion of
vehicles funded

All figures at 30 June 2023, unless otherwise noted
(1) Solvar management estimate for Australian & NZ annual lending volume.
(2) Federal Chamber of Automotive Industries 2002 new car sales data (5 January 2023).
(3) Carsales investor presentation dated 8 March 2023.

# ESG, people and culture

Carbon Neutral status achieved in 2022*

Over 6,000 trees planted & 7+ climate projects funded

Recycling & employee engagement programs in all Solvar offices implemented

Significant increase in contributions to charities in FY23

Solvar has around 10 dedicated charity partners

High level of employee engagement

## OUR VALUES

**Customers are at the Heart of everything**

We deliver products designed around customer needs

**Care and Respect**

We treat people as individuals

**Growing Together**

We grow great people

**Delivering with Integrity**

We always do our best

* Through sponsoring carbon offset programs

SOLVAR

# Appendix

# Alternate P&L

| Financial results<br>*Amounts in $m unless otherwise stated* | 1H FY24 | 1H FY23 | Growth % |
|---|---|---|---|
| Interest income, fees & charges | 109.7 | 103.6 | 5.9% |
| Interest expense | (26.7) | (19.1) | (39.8%) |
| **Net Interest Income** | **83.0** | **84.5** | **(1.8%)** |
| Bad debts | (19.8) | (14.5) | (36.2%) |
| Movement in impairment provisions | (4.0) | (2.1) | (94.5%) |
| Other operating expenses | (39.2) | (30.3) | (29.5%) |
| Depreciation & Amortisation | (1.1) | (1.1) | (6.3%) |
| Tax | (5.7) | (10.8) | 46.9% |
| **NPAT** | 13.2 | 25.7 | |

# Financial results

- Presentation of financial results in line with non-bank peers

# Product Summary

| Product | money3 | | AFS AUTOMOTIVE FINANCIAL SERVICES | | Go Car Finance Goes way further |
|---|---|---|---|---|---|
| **Location** | **Australia** | | | | **New Zealand** |
| **Purpose** | Consumer Vehicle Finance | Consumer Personal loans | Consumer Vehicle Finance | Commercial Vehicle Finance | Consumer Vehicle Finance |
| **Maximum loan amount** | up to $100,000* | up to $35,000* | up to $100,000* | | up to NZ$100,000 |
| **Term** | 24 - 72 months | 12 - 60 months | 12 - 84 months | | 12 - 60 months |
| **Interest rate** | Fixed rate 13.95% - 24.95% | | Fixed rate 9.69% - 19.79% | Fixed rate From 8.97% - 19.47% | Fixed rate 11.30% - 29.95% |
| **Loan book** | $582.8m | | $186.9m | | AU$171.8m |

All figures at 31 December 2023 in $AUD, unless otherwise noted
* Target Market Determination documents as at 19 February 2024

# Glossary of terms

**A$ or $ -** Australian dollars

**Active customer -** A customer with an outstanding balance

**ASIC –** Australian Securities and Investment Commission

**AFCA –** Australian Financial Complaints Authority

**AFIA –** Australian Finance Industry Association

**AFS –** Automotive Financial Services business unit

**ARCA –** Australian Retail Credit Association

**AU -** Australia

**CAGR –** Cumulative Annual Growth Rate

**ComCom –** Commerce Commission of New Zealand

**DPS –** Dividend Per Share

**EPS –** Earnings Per Share

**EBITDA –** Earnings Before Interest Tax Depreciation and Amortisation

**FSCL –** NZ Financial Services Complaints Limited

**GCF –** Go Car Finance business unit

**Loan Book –** Gross written loans, as defined in section 6, of the annual accounts

**M3 -** Money3 business unit

**NPAT –** Net Profit After Tax

**NIM –** Net Interest Margin

**NAF –** Net Amount Financed: The amount of credit advanced to a customer in respect to their loan

**NTA –** Net Tangible Assets

**NZ$ -** New Zealand dollars

**NZ –** New Zealand

**PCP –** Prior Corresponding Period: A comparison of the results for the same period during the previous reported period, typically the previous financial year

**TMD –** Target Market Determination

**RBA –** Reserve Bank of Australia

**RBNZ –** Reservice Bank of New Zealand

**RoE –** Return on Equity

**YoY –** Year on Year comparison of performance

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