cashconverters
ASX Release

27 February 2023

Half-Year Financial Results

For the period ended 31 December 2022

Strong Revenue and Operating Profit Momentum Continuing on Record Loan Book Levels

Cash Converters International Limited (ASX: CCV) ("Cash Converters" or "the Company") today announced financial results for the half-year ended 31 December 2022 (H1 FY2023).

Group Operating Results	H1 FY2023	H1 FY2022 (pcp)	%
Revenue	$142.4m	$115.2m	+24%
Operating EBITDA	$28.9m	$24.4m	+18%
Operating Profit Before Tax (PBT)	$15.8m	$10.8m	+46%
Operating Net Profit after Tax (NPAT)	$10.5m	$7.7m	+36%
After tax Operating adjustments			
- Non-cash items: Impairment Goodwill	$(110.5m)	$0.0m	-
- Non-cash items: Impairment Other	$(4.7m)	$(7.7m)	-
- Net other normalised costs	$(0.8m)	$0.0m	-
Statutory NPAT	$(105.5m)	$0.0m	-
Cash and Cash Equivalents	$67.5m	$64.1m	+5%

Highlights H1 FY2023 vs H1 FY2022 (pcp)

- **Revenue up 24% to $142.4m** – driven by increasing volume across all loan books and store trading improvements.
- **Gross Loan Book up 33% to $255.9m** – all loan books growing. Medium Loan (MACC)[1] now largest book at $90.9m; Vehicle Loan (GLA)[2] and Pawn Broking (PB)[3] loan books growing strongly. Transitioning away from SACC product sitting within Small Loans[4] due to legislative change.
- **Operating NPAT up 36% to $10.5m** – Segments profitable and performing well. International contribution growing.
- **Non-cash items** – Intangible asset assessment leading to a one-off, non-cash write-down of historic SACC related acquisition goodwill and impairment to certain other assets.
- **Cash and Cash Equivalents $67.5m** – up from $58.1m (30 June 2022)
- **Dividend:** 1c fully franked dividend declared, fifth straight dividend payment at 1c.
- **Corporate Development:** New Zealand Cash Converters Franchise acquisition settled and integration tracking well, *PayAdvance*[5] national product launch complete.
- **Outlook – Growth Drivers**:
  - ✓ Diversification of business model away from SACC product sitting within Small Loans (impacted by new legislation); strong customer demand for alternative financing solutions.
  - ✓ Marketing optimisation now attracting 22,000+ new customers per month.
  - ✓ Medium Loan Book growing strongly.
  - ✓ Vehicle Loan financing momentum increasing.
  - ✓ New product releases delivering new growing loan books.
  - ✓ Value accretive franchise store network acquisitions ongoing – domestic & international.
  - ✓ International operations recovering.
  - ✓ Balance sheet strength, investing for growth.

Cash Converters Managing Director, Sam Budiselik stated:

“We are pleased to report strong financial operating results for the half, driven by our lending operations with a 33% increase in total Gross Loan Book to a record $255.9 million, compared to a year ago, 31 December 2021 (pcp). Particularly pleasing was the continued Medium Loan Book growth, up 40% on pcp, now the largest loan book at over $90.9 million.”

“With the withdrawal of Covid related stimulus of recent years, demand for all loan products continues to increase. The month of December 2022 alone saw new record high application volumes for Small Loans and Medium Loans - with over 80,000 applications received and outgoings of $30.3 million funded in the month (up 10% on pcp).”

“In terms of our store operations, we are seeing a continued recovery following a period of significant disruption during Covid, that impacted our inventory levels. Our retail business model is unique, largely dependent on customers selling items to feed store retail inventory. As that over-the-counter activity has returned, inventory levels have recovered, with sales trading activity increased as a result.”

“Our online retail and lending platforms are reaching a growing number of new customers, with over 22,000 new customers entering our business, either instore or online, each month. Over 100,000 customers transact with our business in an average month and we continue to rate highly on brand trust and net promoter score indexes that we monitor.”

“Finally, strategic initiatives executed across the business have begun delivering revenue growth, with new product innovation progressing to launch and value accretive store acquisitions integrated into the network throughout the half, both domestically and overseas.”

“Each of the factors above demonstrate the potential of our unique business model, which continues to appeal to a growing number of customers. Whilst offering cash solutions that include personal (Small and Medium), Vehicle and Pawn Broking Loans, we also remain committed to facilitating an important role in the circular economy, repurposing secondhand goods and eliminating landfill”.

“We remain sensitive to the impact that rising living costs are having on our customers and we continue to evolve our business model to offer new and innovative products and services. The strategic building blocks for the future era of Cash Converters are in to place and it is an exciting time to lead a passionate customer focused management team.”

“As announced to the market on 21 February 2023, impacting the statutory profit result this half is an asset impairment resulting from legislative changes that were passed by federal parliament in December 2022 (see section ‘*Financial Services Reform Bill*’). The Board has taken the decision to book a one-off, non-cash adjustment to the carrying value (predominantly goodwill) of $117.2 million before tax (See Appendix 2).”

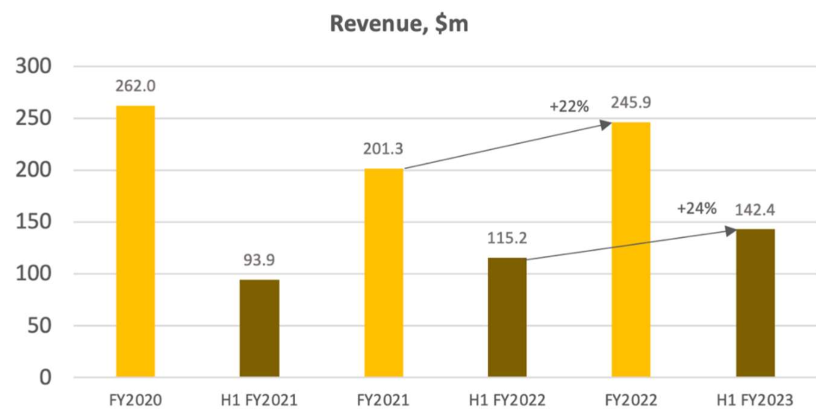
“The charge relates predominantly to goodwill originating from and related to historic SACC related acquisitions and does not relate to the outlook for other (non-SACC) products or impact the operating profit of the business. Whilst the regulations for SACC Loans is undergoing change, our customers’ need for cash does not and in advance of these anticipated changes, we have successfully executed a strategy to migrate customers away from SACC Loans where responsible to do so. Our stringent approval rate on SACC loans reflects this change, currently sitting at just under 25% of applications received, as does the record level and growth rate of the current MACC book.”

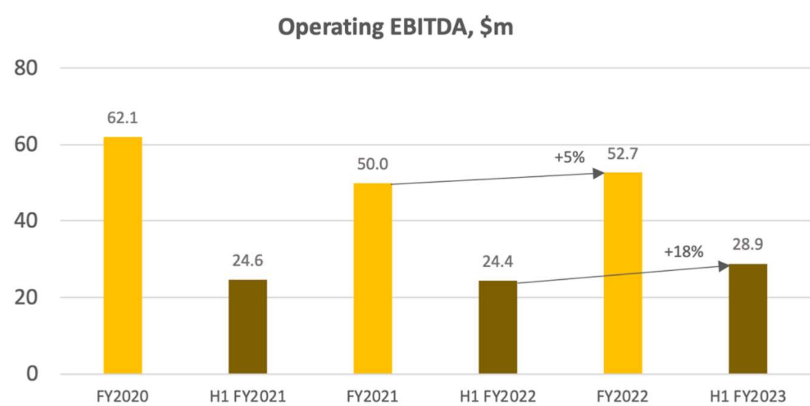
“Making it harder for people to access credit will likely result in industry consolidation and our business remains well positioned to continue growing as a result. The Company remains optimistic that the underlying momentum in the business will continue, as cost of living pressures drive record demand. As we continue to innovate and expand our product range, we remain focused on new longer term, lower cost loan products and leveraging our scale as the dominant operator in our customer segments.”

Revenue & Earnings – Strong Recovery Following Covid

Revenue & Earnings (EBITDA) growth continues to build momentum, up 24% pcp (to $142.4m) and 18% pcp (to $28.9 million) respectively. This was primarily driven by increasing lending volumes across all loan books and store trading improvements.

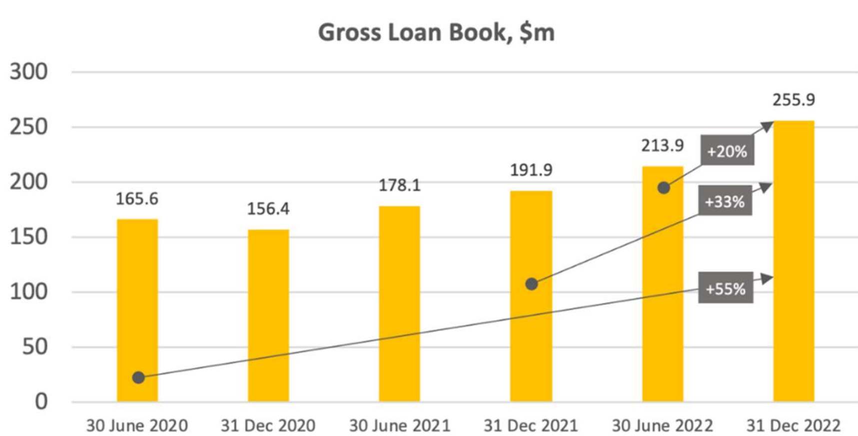
The international business is recovering well, with the integration of the New Zealand acquisition now settled, along with improved trading conditions across our Master Franchise operation in the United Kingdom.





Loan Books - All Growing

The Gross Loan Book reached a record level, up to $255.9 million (+33% pcp) at 31 December 2022 with the addition of $42m of Gross Loan Book value across the half.



Personal Finance – Small and Medium Loans

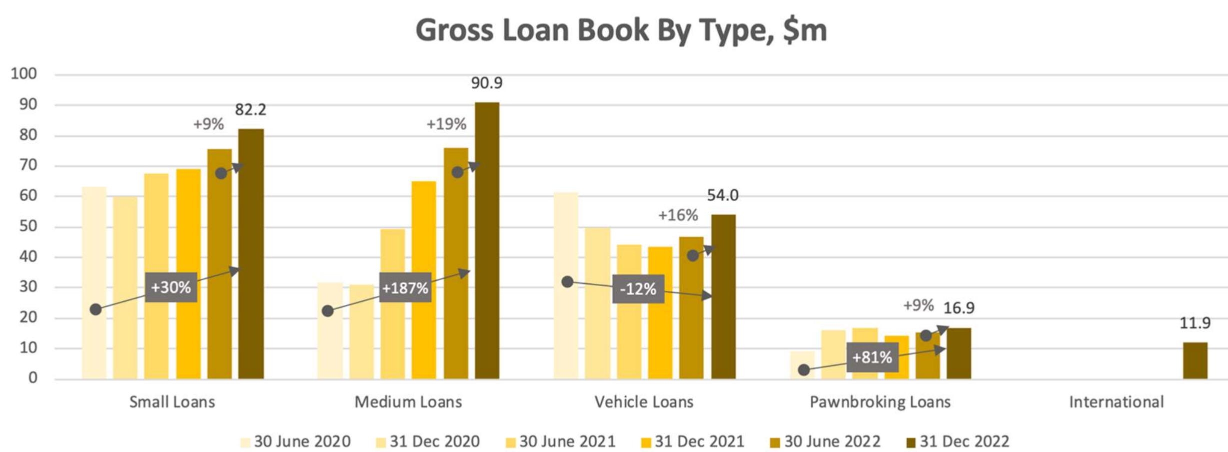
The Personal Finance segment reflects earnings from two types of unsecured loans; Small[4] and Medium[1] Loans distributed online and instore. The Medium Loan Book grew 19% from June 2022 and it is anticipated this loan book growth trend will continue. Small Loans consist of SACC and recently launched PayAdvance loan types.

Vehicle Loans[2]

Secured Vehicle loans offered through a network of brokers and dealers by our fully owned subsidiary, Green Light Auto (GLA), also performed well, resulting in the loan book growing to $54m, an increase of 16% from June 2022. The value of loans funded increased 72% on a pcp basis as new brokers were added to our platform and vehicle finance demand increased across the market.

Pawnbroking Loans

The Pawn Broking loan book returned to near pre-COVID highs of $16.9m at the end of December 2022 (Corporate stores only), up 9% on June 2022. A recovery in Pawnbroking across the entire store network was the result of a normalisation of demand as Covid related subsidies ceased and store foot traffic returned.



Loan Book Performance

Two loan book loss related expenses impact the Profit or Loss Statement: 1.Historic loan 'Net Bad Debt Expense[6]' and 2. Current loan 'Expected Credit Losses[7]'. The Net Loss Rate[8] (Net Bad Debt Expense over Average Gross Loan Book) for the period was 8.6% and in line with expectations compared to 8.3% in the prior half (30 June 2022) and 10.9% pre-Covid (30 June 2020).

1. Net Bad Debt Expense

Net Bad Debt Expense for the half was $20.2m, up from $11.7m in the prior period (pcp). This was anticipated, with significant loan book growth throughout the period.

2. Expected Credit Loss Expense (ECL)[7]

Success in growing the loan book will result in the ECL expense increasing in the same accounting period (up front expense) whilst deteriorating loans written in a prior period (e.g., due to missed payments) may see adjustments made. The movement in ECL for the half was an expense of $1.6m vs $2.8m pcp.

Regulatory Update

Financial Services Reform Bill - Update

As announced on 21 February 2023, a Bill passed by the Australian Senate in December 2022 contains a number of Financial Services legislative changes. These changes focus on the enhanced regulation of SACC loan products offered by the Company. The key impact resulting from these changes is the extension of a Protected Earnings Amount (PEA) requirement to all borrowers (including those fully employed). Previously, the PEA only applied to Centrelink recipients. The PEA change will come into effect in June 2023. This limits the amount of credit that can be extended to an individual borrower under a Small Amount Credit Contract (SACC).

Whilst uncertainty exists as to customer behaviour resulting from these changes, our customers' need for cash does not. If anything, the need is growing with Australians struggling to manage household budgets in an inflationary environment. The Company continues to believe that further restricting access to this regulated credit product will have significant unintended consequences, making SACC loans longer in duration and more expensive for the borrower as a result. We remain focused on assisting our customers with this transition and confident that where suitable, we will be one of the few lenders offering longer term products with lower re-payments.

AUSTRAC Undertaking

The Company has undertaken an uplift program to address shortcomings in its compliance with anti-money laundering and counter-terrorism financing (AML/CTF) laws. The shortcomings were identified during an investigation by AUSTRAC, which focused on the period between 2014 and 2021. No fine was levied as a result of the investigation. In response to the AML/CTF uplift program, AUSTRAC has acknowledged the significant steps taken by Cash Converters and the co-operation of the Company, which demonstrate a commitment to assisting AUSTRAC in the important work it undertakes in protecting the community from the harm caused by money laundering and terrorism financing. Cash Converters is committed to the continued enhancement of its compliance processes, systems and capabilities and an ongoing collaborative relationship with AUSTRAC. As announced on 21 February 2023, Cash Converters entered an Enforceable Undertaking with AUSTRAC to demonstrate this commitment.

Strategy Update & Outlook

New Product Development

A new Line of Credit product has been released into pilot, with the development of a Debt Consolidation Loan also progressing well. These new products will play a key role in the composition of the Company's future loan book and are not impacted by the recent regulatory changes, assisting customers impacted by the recent legislative changes with new solutions, where suitable.

New Product Release

The successful national launch of *PayAdvance* in this half, an *Earned Wage Advance* product, is viewed as an opportunity to deal with a younger customer cohort who value this solution, due to the simple, low cost (5% one off fee) nature of the digital product offering. This is illustrated by 40% of current *PayAdvance* customers sitting in the 18–30-year age range and 75% of current customers under the age of 40 years. Whilst the product remains in its infancy, issuance of loans exceeded $2.7m across the half with the new loan book steadily growing as a result. This product is viewed as an important origination channel in to our personal finance business for customers looking to access longer term finance.

International Network Growth

New Zealand: The Company was pleased to announce settlement of the New Zealand master franchisor acquisition during the period, with that business performing in line with forecasts. We remain focused on realising the potential of the New Zealand business following a period of regulatory change (amended interest and fee caps introduced in June 2020), with loan books now growing and network expansion opportunities under review.

Europe: The emergence of Europe from Covid related lockdowns has also resulted in our United Kingdom business recovering well, as our franchise trading partners enjoy elevated Pawn Broking and retail trading demand. Cash Converters International Limited remains the Master Franchisor in the UK, with 188 franchised stores on our platform. European operations continue to recover with the various Master Franchise operators in those countries reporting growing loan books and improved retail trading conditions.

The Company remains well placed to fund organic growth and to continue to capitalise on inorganic growth opportunities as they present, with a focus predominantly on acquisition opportunities across our Franchise networks.

Dividend

The Board is pleased to confirm the declaration of a fully franked interim dividend of 1 cent per share, payable on 14 April 2023, to those shareholders on the register on 24 March 2023 (record date).

The Board and management team would like to thank our colleagues for their hard work, our customers for their loyalty, and our shareholders for their continued support.

Authorised for release by the Board of Cash Converters International Limited.

ENDS

Use **EasyUpdate** to change your communication preferences, and access the **InvestorCentre** for any other shareholder services. Investor contact: info@cashconverters.com

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About Cash Converters

Cash Converters International (ASX: CCV) is Australia's leading sub-prime, non-bank lender and second-hand retailer.

Commencing trade in 1984 as a single store in Perth, Western Australia Cash Converters has since expanded its footprint to over 150 Corporate and Franchise stores in Australia, 22 Corporate and Franchise stores in NZ and over 500 Franchise stores overseas. Our product offering has also been expanded, entering personal and vehicle finance markets where we now maintains significant market share.

Cash Converters has also established a significant online presence in recent years to complement our extensive store network, providing both lending and retail services online to a growing number of customers.

Cash Converters holds an Australian Credit Licence, operates under the National Credit Act and offers customers the key protections of regulated credit products under the responsible lending framework overseen by regulators.

To learn more, please visit: www.cashconverters.com or contact us :info@cashconverters.com

Appendix 1: Gross Loan Books

		30 Jun 2020	31 Dec 2020	30 Jun 2021	31 Dec 2021	30 June 2022	31 Dec 2022	PCP H1'23 vs H1'22	Dec 22 vs Jun 22
Small Loan (SACC & PayAdvance)[4]	Loan Book	$63.1m	$59.8m	$67.6m	$69.0m	$75.6m	**$82.2m**	**+19%**	**+9%**
	% of Total	38%	38%	38%	36%	35%	**32%**		
Medium Loan (MACC)[1]	Loan Book	$31.7m	$30.9m	$49.4m	$65.1m	$76.1m	**$90.9m**	**+40%**	**+19%**
	% of Total	19%	20%	28%	34%	36%	**36%**		
Vehicle Loan (GLA)[2]	Loan Book	$61.5m	$49.7m	$44.3m	$43.4m	$46.7m	**$54.0m**	**+24%**	**+16%**
	% of Total	37%	32%	25%	23%	22%	**21%**		
PawnBroking[3] (PB)	Loan Book	$9.3m	$16.0m	$16.8m	$14.4m	$15.5m	**$16.9m**	**+17%**	**+9%**
	% of Total	6%	10%	9%	7%	7%	**7%**		
International loan book*	Loan Book	-	-	-	-	-	**$11.9m**	**-**	**-**
	% of Total	-	-	-	-	-	**4%**	**-**	**-**
Total Gross Loan Book		$165.6m	$156.4m	$178.1m	$191.9m	$213.9m	**$255.9m**	**+33%**	**+20%**
Net Loss Rate[8]		10.9%	5.0%	6.1%	6.3%	8.3%	8.6%	**-**	**-**

NB: all Small, Medium, Vehicle and PawnBroking Loan Books are Australian.
* Includes recent New Zealand franchise acquisition (Dec 2022).

Appendix 2: Impairment Expenses (All Non-Cash)

Goodwill Impairment – SACC Product

With the changing SACC legislation, the decision was taken by the Board to book a one-off non-cash impairment charge to the Income Statement on the carrying value of goodwill on the balance sheet of $110.5m. This goodwill originated from historic acquisitions. The decision to impair the goodwill reflects the diminishing strategic contribution of the SACC Loan product to the Personal Finance segment looking forward.

Store Asset Impairment – Store Lease Right of Use Assets

As a result of the above changes, a small number of certain individual stores across the network have been identified as having their asset carrying value impaired by the value of $3.9m (after tax). An impairment expense has been booked in the Income Statement and a provision against right of use assets (store leases) on the balance sheet. The store impairments were allocated to store leases in line with accounting standards. Future periodic impairment testing may see a reversal or increase in the provision depending on changes in economic conditions, assumptions and forecasts.

Store Asset Impairment – Other Impairment

Plant, property and equipment (PPE) and other intangible assets were impaired in certain individual stores across the network totaling $0.8m (after tax).

Notes:

[1] **Medium Amount Credit Contract (MACC):** a regulated unsecured personal loan product, transacted in-store and online, up to $5,000 and up to 24 months.

[2] **Green Light Auto (GLA):** a fully owned subsidiary of CCV offering secured vehicle loans through a network of brokers and dealers. Average Loan size $18.5k.

[3] **Pawnbroking Loan:** average loan size circa $195 over 1-3 months. These relate only to Pawnbroking loans originated in corporate owned stores. Franchise store Pawnbroking loans are excluded as loan risk is directly held by the franchises (i.e. loan collateral is also held by the franchises).

[4] **Small Loans** include:

- **Small Amount Credit Contract (SACC):** a regulated unsecured personal loan product, transacted in-store and online, up to $2,000 and up to 12 months.
- **PayAdvance[5]:** has a one-off fee of 5% applied upon repayment, to an advance on earned, but not yet received salary or wages, with no other fees or charges applied, up to $150.

[6] **Net Bad Debt Expense**: consists of 'Bad Debt Written Off' net of 'Recovery of Write Offs' (across loan products: SACC, MACC and GLA).

- **Bad Debt Written Off:** impacted by events occurring in two parts of the loan book: new loans written in the period and pre-existing loans still running (not yet reaching maturity).
- **Recovery of Write Off:** Written off amounts recovered through the collections process.
- 'Bad Debt Written Off' and 'Recovery of Write Offs' may not correspond to the same accounting period. For example, 'Recovery of Write Offs' may relate to an older period of underlying loans than the underlying loans relating to 'Bad Debts Written off''.

[7] **Expected Credit Loss:** is the upfront expense recognised in the Income Statement for expected credit losses at the time of writing a new loan as well as for changes in the expected credit losses on existing loans. The ECL expense is a statistical present value calculation based on the accounting standard AASB9 Financial Instruments. Changes in the credit quality of the loan since origination are recognised in the Income Statement.

[8] **Net Loss Rate (NLR):** defined as Bad Debt Written off Expense net of Recovery of Write Offs for the period, compared to average Gross Loan Book for the period.