ASX Release

29 August 2019

cashconverters

FY 2019 Results announcement to Market

Cash Converters International Limited (ASX: CCV) ('Cash Converters' or the 'Company') has reported a statutory net loss after tax of $1.692 million for the year ended 30 June 2019, compared to a profit in the prior year of $22.503 million.

As advised to the market earlier in the month, the Group's results have been impacted by a series of adjustments including the settlement of the McKenzie class action ($16.400 million) and associated legal fees ($3.151 million), a credit risk review which resulted in additional loan write-offs (net expense $5.059 million), restructuring costs ($1.492 million), the accelerated amortisation and depreciation of software and other assets ($3.546 million), and the write off of a software development project in the UK ($1.558 million). The business has delivered a solid underlying performance across all divisions, however increased arrears and bad debts written off have reduced net returns to below the previous year.

With continued investment in its proprietary technology and store network, the Company is well positioned for future growth and profitability, however, headwinds remain, with ongoing regulatory uncertainty and the outcome of the remaining class action still unknown. As the Company awaits the resolution of these matters, it will continue to leverage the underlying loan book growth and increased application numbers for both secured and unsecured lending products. There will be continued focus on improvements to its credit risk decisioning to improve the quality of the loan portfolio, whilst satisfying our customers' increased demand for their cash requirements.

Summary financials

	Segment revenues		**Segment EBITDA results**	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Franchise operations	19,124	19,606	11,420	12,404
Store operations	118,216	118,540	13,897	15,787
Personal finance	125,136	109,490	38,415	46,677
Vehicle financing	18,160	11,969	866	2,574
Totals before head office costs	280,636	259,605	64,598	77,442
Head office	929	740	(43,315)	(27,666)
Totals after head office costs	281,565	260,345	21,283	49,776
Depreciation, amortisation and impairment			(13,222)	(7,683)
Finance costs			(10,427)	(10,822)
Profit / (loss) before income tax			(2,366)	31,271
Income tax benefit / (expense)			674	(8,768)
Profit / (loss) for the year			(1,692)	22,503

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Review of operations

Franchise division
Franchise Operations delivered EBITDA of $11.420 million, down from $12.404 million in 2018. This reduction included the additional expenses incurred following the write-off of the UK IT project and a reduction of interest revenue following the repayment of a $15 million loan to Cash Converters New Zealand (CCNZ). CCUK opened 3 new franchise stores during the year, with plans for more in the years ahead. Internationally, more stores were opened by the South African and Spanish franchisees. With CCNZ continuing its strong growth with a 90.6% increase in its contribution, up to $1.613 million.

Corporate Stores

The corporate stores in Australia delivered an EBITDA of $13.897 million, down 12.0% on the prior year. This decrease included the impact of increasing the provisions for aged inventory and pawnbroking loans, reducing the result by $1.410 million. With the exception of the Cash Advance product, where in-store lending decreased by 18.3%, all other revenue streams for stores increased. In-store retail sales increased by 4.6% year on year, and pawnbroking income was up 3.8%.

Personal Finance

The 2019 year was a challenging one for the personal finance business. With personal loan application numbers up 18.3% to almost 450,000. The business has adapted to increasing arrears with further improvements to its credit criteria, which are expected to yield improvements to the net bad debt expense in the years ahead. Unfortunately, the growth in lending that resulted in a 14.3% increase in revenue to $125.135 million, also resulted in an increase in bad debt expense of $19.883 million. These combined resulted in a reduction to EBITDA of 17.7% to $38.415 million.

Vehicle Financing

The Green Light Auto business continues to grow, with revenue up 51.7% to $18.160 million and loan book growth of 70.5% to $71.750 million. As the business matures, the performance of customers is evolving, and the reviews conducted of the business and loan books resulted in additional write-offs reducing the EBITDA to $866 thousand, but also stimulated a comprehensive revision to the credit scorecard which slowed down the loan book growth in the second half of the year and is anticipated to result in an improvement in arrears and bad debt expense in the year ahead.

Following the migration of loan management to the core Cash Converters Personal Finance (CCPF) loan management software platform in 2018, the Company completed the transition to integrate the assessing functions into the processing centre of CCPF to leverage their capability in handling large volumes and to maximise the operational efficiencies achievable from a combined central processing team.

Outlook and Risks

The Company still awaits the outcome of the Lynch class action, and whilst the impact of the case is not yet known, management continue to develop its strategy to drive the business forward and prepare itself for growth once this legacy issue is resolved.

Cash Converters has established itself as a market leader in second-hand goods retailing, pawnbroking and short-term unsecured lending in Australia, and will further leverage that scale with both its physical store presence and online capabilities. Through optimisation of these core businesses the Company can deliver increased value to shareholders. The addressable market for secured auto financing also remains solid for the Green Light Auto brand to build its standing and become a larger participant in the sector.

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