ASX Announcement **22 April 2020**

Pioneer Credit Limited - Company Update

Pioneer Credit Limited (ASX: PNC) ('**Pioneer**' or the '**Company**') provides the following update.

Key Points

- The proposed Scheme of Arrangement with The Carlyle Group has been terminated and the Company has commenced legal proceedings in relation to the dispute with Carlyle under the Company's Syndicated Facility Agreement.

- Carlyle has issued a notice purportedly declaring that the secured money under the Syndicated Facility Agreement is immediately due and payable and demanding that Pioneer pay all of the Outstanding Amount, calculated by Carlyle as being $165,808,514. The Company has refuted the existence of any default (and that dispute is the subject of the legal proceedings it has commenced).

- With the Scheme Implementation Agreement now terminated, Pioneer is no longer subject to its exclusivity provisions and is free to engage with other parties for an alternative transaction. This may include a control transaction and/or the potential refinance of Pioneer's debt facilities, for which discussions have commenced.

- In response to COVID-19, the Company has taken proactive measures to safeguard staff, reinforce disciplined cost management and adapt its engagement with customers to offer them more options and flexibility.

- To date, Pioneer has seen some impact on its liquidations performance due to COVID-19, although there is the potential for greater impact going forward. Pioneer's payment arrangement portfolio has performed well, experiencing a Loss Rate[1] of only 3.4% since its peak in March 2020. For the 9 months ending 31 March 2020, liquidations were $78.4m (up 1.8% on prior corresponding period).

[1] Loss Rate is the net total amount of payment arrangements that have stopped payment from the date of the highest balance under arrangement of the Company's arrangement portfolio to its recent low on 9 April 2020

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- Sales of PDPs by most banks and other vendors have been put on hold in light of COVID-19, which will increase the Company's cash position but reduce its investment in debt portfolios and therefore its asset growth. Looking forward, the possible economic downturn expected to be triggered by the shutdown and employment impacts of COVID-19 could lead to attractive opportunities for ongoing investment.

- As at 31 March 2020, Pioneer's PDP holdings were $274.0m (unaudited). Pro forma net assets per share, assuming a refinance of Pioneer's debt facilities, are estimated at $1.27 (unaudited).

  It is important to note that these figures have been calculated using substantially the same Amortised Cost assumptions as were used for the 1H20 reviewed accounts released to the market on 28 February 2020. The figures are not audited and do not consider the impact arising from COVID-19 or other changes that may have occurred to the Company's portfolio.

- With less PDP purchasing and considering Pioneer's operational performance as highlighted above, the Company had cash on hand of $4.8m as of Friday 17 April 2020. The Company confirms it continues to generate free cashflow and expects this to grow by 30 June 2020.

Updates in Relation to the Carlyle Proposal and Potential Alternatives

A detailed summary of the status of the now terminated Scheme and our financing facility with The Carlyle Group is set out below, along with an update as to the next steps and alternatives being pursued by Pioneer.

Scheme of Arrangement

It was with disappointment that Pioneer terminated the Scheme Implementation Agreement ('**SIA**') entered into on 5 December 2019 between Pioneer and Robin Bidco Pty Ltd ('**BidCo**') and Robin HoldCo Pty Ltd ('**HoldCo**'), entities part of The Carlyle Group ('**Carlyle**'). Pioneer sent a notice of termination of the SIA to Carlyle on 19 April 2020. The original indicative Scheme timetable would have seen the transaction completed during April 2020, however, the ongoing discussions with Carlyle became a very protracted process. In addition, Carlyle had alleged that Pioneer was in breach of the SIA and threatened to terminate the SIA itself.

Following Pioneer's termination of the SIA under clause 15.1(c) of the SIA, Bidco and HoldCo claimed that the Company wrongfully repudiated the SIA. However, Pioneer was entitled to terminate the SIA under clause 15.1(c) because the Scheme will not become Effective by the Sunset Date, being 5 June 2020.

BidCo and HoldCo further claimed that the Company's termination constituted a repudiation of the SIA on the alleged basis the non-lodgement of the Scheme Booklet with ASIC was caused by Pioneer's conduct and its refusal or inability to address fundamental issues with the Pioneer business. As stated previously, Pioneer refutes these allegations and has reserved its rights. BidCo and HoldCo also claim that it is they, and not Pioneer, who has terminated the SIA and they have said they intend to claim for loss they say they have suffered. Pioneer also disputes this claim.

The main effects of Pioneer's termination of the SIA are:-

- The Exclusivity Period under the SIA ceases immediately, allowing the Company to engage with third parties for alternative proposals;

- Pioneer is not required to pay a reimbursement or break fee to Carlyle; and

- The Commitment Deed executed by entities related to Mr Keith John, Managing Director ('**John Entities**') in favour of Carlyle (and as released to the ASX on 9 December 2019) remains in place until the earlier of 5 December 2020 or the date on which a third party, that has made a takeover bid for Pioneer, has acquired a relevant interest in more than 50% of the fully paid ordinary shares in Pioneer and declared that takeover bid unconditional. This deed was designed to secure Mr John's support for Carlyle's proposal and requires the John Entities to, amongst other things:-
  - Not accept or make any statement to accept or vote in favour of or support, and abstain from recommending, any Competing Proposal (as defined in the SIA);
  - Vote all shares held by them against any Competing Proposal;
  - Only accept a takeover offer after it is unconditional and the bidder has acquired a relevant interest of greater than 50%; and
  - Comply with certain other restrictions of a similar nature to the above.

The John Entities currently hold 8.3% of the shares in the Company. Carlyle can also consent to any action by the John Entities that they would otherwise be restricted from taking.

Financing Facility

The Company has now had some time to consider the 26 page response received late on 19 April 2020 from Project Robin, L.P., another entity part of the group doing business as The Carlyle Group ('**Carlyle**'), following the Company's demand for Carlyle to withdraw its Default Notice under the A$ Syndicated Facility Agreement ('**Facility Agreement**').

As advised, Carlyle rejected the Company's demand to withdraw the Default Notice and continues to reserve its rights under the Facility Agreement.

In its 19 April 2020 response, Carlyle reiterated its previous allegations made in its letter of 7 April 2020.

On 20 April 2020, Carlyle notified the Company that it has purported to appoint an Investigating Expert.

On 21 April 2020, Carlyle issued a notice to Pioneer purporting to declare that the Secured Money is immediately due and payable and demanding that Pioneer pay to Carlyle all of the Outstanding Amount. Carlyle has calculated that as at 20 April 2020, the amount required to be paid is $165,808,514.

As previously announced, the Company has strongly refuted the existence of any default under the Facility Agreement and has commenced legal proceedings in the Supreme Court of Western Australia for declaratory relief and other ancillary orders, including but not limited to injunctive relief to stop the appointment of the Investigating Expert and to have the notice of default declared invalid, which would deem the demand for payment void.

The Company will continue to update the market with any material development in relation to the Facility Agreement.

Refinancing Process

The Company has promptly commenced discussions with potential third party lenders to refinance its debt facilities and to provide the Company with growth funding for the medium term.

Under the Facility Agreement, the Company will owe a principal amount of $141.6 million to Carlyle, due on 20 September 2020. The interest rate under the facility is currently 20% per annum and there is a make whole payment which requires the Company to pay a minimum of 9 months of interest. Upon early refinance of the facility, Carlyle calculate the amount due as approximately $165.8m.

This represents a senior loan to value ratio relative to the Company's unaudited PDP balance as at 31 March 2020 of $274.0m of 59.6% (subject to the Amortised Cost assumptions noted above). Pioneer also has subordinated notes on issue, and a summary of the Company's full net asset position is set out below.

Alternative Transaction Process

An alternative to a refinancing is to undertake a similar transaction to the Carlyle proposal with another party.

In the second half of 2019 Pioneer engaged Azure Capital to run a process by which proposals for the acquisition of all of Pioneer or its business were obtained and this process resulted in a number of proposals that represented significant value for Pioneer shareholders relative to the recent trading range of Pioneer shares. Of those proposals, Carlyle was selected as the preferred party but it was not the only option open to the Company at the time. Albeit these events took place in a different economic environment, the Company remains of the opinion that its business would offer significant value to an acquirer and is re-commencing discussions with these and other parties. The Company also received unsolicited approaches from some of these parties last week, which Pioneer believes were stimulated by its low share price relative to the underlying value of its net assets, and the publicity surrounding the developments with Carlyle. At the time Pioneer was unable to engage with those parties due to the exclusivity provisions under the SIA, however, the exclusivity period has now ceased. Pioneer will provide further updates as information becomes available.

Updates in Relation to Pioneer's Operations

Below is an update in relation to Pioneer's recent trading and outlook.

Debt Sale Partners and Forward Flow Agreements

As a result of the COVID-19 impact on the economy, the Company's forward flow agreement partners have communicated their intention to suspend debt sales for the foreseeable future, with this position likely to be reviewed at the end of June 2020. As a consequence, Pioneer expects to save ~$13m in investment spend over the next three months.

Pioneer continues to maintain strong relationships with debt sellers and reinforce its intention to grow its portfolio once more stable conditions return. The Company's reputation for strong customer service means it is well placed as the preferred option for many sellers once suspensions are lifted.

Liquidations

Recent Liquidations Performance

Liquidations performance for the first nine months of the financial year has continued in a manner the Company is satisfied with. That performance is up 1.8% on the prior corresponding period and pleasingly this includes good growth in our payment arrangement portfolio. In the coming months it is expected that some of Pioneer's customers will be beneficiaries of both state and federal government programs which will enable them to continue to pay down their debt positions. The Company has seen some early evidence of this customer behaviour.

Payment Arrangement Debt Portfolio

To date, the Pioneer payment arrangement portfolio has performed well. In the financial year to date it has grown from $290m[2] to approximately $336m as at 17 April 2020. From its peak (the highest point of value which was achieved on 20 March 2020) to trough (the lowest point of value reached on 9 April 2020) the portfolio has experienced a Loss Rate of only 3.4%.

Based on our review of the customer circumstances in the portfolio to date, we expect that most all of these portfolio losses will be reinstated and commence re-performing once the economy returns to a more normal footing.

In addition, the Company continues to write new arrangements with its customers each day, and over the course of the past week has seen a small increase in net growth of these arrangements.

COVID-19 Response

Pioneer has made a range of operational changes to deal with the potential impact of the COVID-19 pandemic.

First and foremost has been the reorganisation of our work place to facilitate a 'work from home' ability for ~60% of our people, the introduction of social distancing across our floors in Australia along with a broad range of hygiene measures to support the cleanliness of our office environment and lower the prospect of a transmission of any disease. Our employee wellbeing is critically important to the Company and we are pleased we have had no instances of employees presenting with COVID-19.

In Australia, there has been a small number (20) of redundancies from operation support teams with redundancy entitlements paid in full.

Under a contract for services with a supplier for The Government of Western Australia, Pioneer has temporarily redeployed 150 employees from its contact centre to the State's COVID-19 response providing much needed resources for the pandemic response and facilitating the ongoing employment of these individuals. This temporary arrangement is expected to be profitable for Pioneer and support its cash flow.

In the Philippines where there are 100 Pioneer contractors, the Company has, with the support of its partners, redeployed 35 people into other work streams that enable 'work from home'. The nature of Pioneer's agreements does not enable this for its contact centre operations in that country. 30 staff are working from a combination of home (support staff only) and the office, with the balance of the workload being delegated to the Australian-based team until such time as easing of social restrictions in the Philippines allow for operations to resume.

[2] As at 30 June 2019

These and other measures have enabled the Company to reduce its costs by approximately $400,000 per month.

The Company quickly adapted its engagement with customers reducing the frequency of its contact while increasing the immediate options available to any customer impacted by COVID-19 including payment moratoriums, reduced payment arrangement amounts, interest waivers and in certain circumstances debt waivers, where appropriate.

The customer-focused approach underpins the reason why major debt vendors choose Pioneer as a preferred supplier and the Company continues to demonstrate its long term value to partners.

Balance Sheet and Liquidity Position

Pioneer's cash position as at Friday 17 April 2020 was ~$4.8m.

With only a very small amount of PDP investment likely for the balance of the financial year, ongoing liquidations are likely to mean this cash position will grow through to 30 June 2020.

Pioneer's current unaudited pro forma net assets are shown in the summary table below, as at 31 March 2020. The net asset figure has been adjusted to show the position if Carlyle is refinanced with a new lender.

Balance Sheet	Mar-20
Cash and cash equivalents[1]	**$9.2m**
Financial assets at amortised cost[2]	**$274.0m**
Total Assets	**$302.8m**
SFA - Carlyle 4th Variation[3]	**$163.4m**
Medium Term Note	**$40.0m**
Total Liabilities	**$222.0m**
Net Assets	**$80.8m**

Note:

1. Includes ATO tax refund received 1 April 20
2. Calculated in accordance with and subject to the Amortised Cost assumptions noted above
3. Pioneer's calculation of the amount due including interest make whole on a refinance or at maturity on 20 Sep 20

With 63,398,249 Pioneer shares on issue, this translates to net assets per share of $1.27.

Outlook

While the Company has had challenges in recent times, operationally it remains a well performing and valuable business.

While it is difficult to accurately forecast the impact of COVID-19 on Pioneer's trading performance, and some negative impacts may occur, the early indications are that the Company is trading well in the circumstances, and the Company believes in the medium term it may see some benefits from a reduction in future PDP pricing. In the meantime actions have been taken to minimise costs and position the Company to trade through the current lockdown period, and emerge in a strong position to capitalise on the opportunities it expects will arise in its sector. The company's unaudited management accounts reflect a manageable net loss for this financial year.

Pioneer will carefully monitor its performance and developments in its sector and its portfolio to ensure it continues to manage its financial position, and work towards the best outcomes for its shareholders, customers, suppliers and employees.

Authorised by the Board of Directors of Pioneer Credit Limited

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About Pioneer

Pioneer Credit is an ASX-listed company (ASX: PNC) providing high quality, flexible, financial services support to help everyday Australians out of financial difficulty. Pioneer Credit has the trust of long-term vendor partners to do the right thing and respectfully support customers to achieve their financial independence.

Pioneer Credit has established a solid foundation to pursue further growth by leveraging its outstanding industry relationships, compliance record and customer-focused culture.

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