



Matthew Thomas

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Collection House Limited

2014 Results Presentation



Results Highlights

- NPAT increased 20% (from FY13) to \$18.7m, a record profit result for the Group.
- Final dividend increased 14% (from FY13) to 4.1c, taking full year dividend to 8c.
- Average ROE stable at 13% - notwithstanding capital raising completed during the year.
- Collection Services revenue increased 12% in FY14 compared to FY13.
- PDL collections increased 10% to \$106.5 million in FY14 compared to FY13.
- EBIT margin improved from 29% to 30% year on year, despite significant operational changes and investments in growth during the year.
- \$82.2m invested in PDLs during FY14 (record PDL investment), with \$53m already committed under contract for FY15 .
- Market share of core PDL forward flow contracts increased during the year.
- Earnings per share growth increased by 8% to 14.7c in FY14.

Collection
Services revenue
increased

12%



This Results Presentation should be read in conjunction with the Appendix 4E, Financial Report and ASX Announcement. Please note that percentages have been rounded to the nearest unit for this Results Presentation.

Results Highlights (continued)

- Consistent with the plans explained at the 2013 AGM, capabilities have been enhanced in terms of people, structure, systems and balance sheet strength required to execute the 'gear shift' driving our growth strategy (refer pages 7 and 13 -14 for details).
- Interim expansion of Manila operations complete – now 110 operational seats of capacity.
- Syndicated banking facilities established and announced 29 January 2014.
- Gearing levels reduced from 41% to 39% (end FY13 to FY14, Net Debt/Net Debt plus Equity).
- Gearing reduced to a seven year low, notwithstanding PDL investment levels at record high .

FY14
gearing Levels
reduced to

39%

Key Financial Highlights

\$m	FY10	FY11	FY12	FY13	FY14	%
Revenue	73.8	76.8	89.1	97.3	107.3	10
Profit Before Tax	11.8	14.6	17.7	22.3	27.0	21
Taxation	(2.9)	(4.5)	(5.1)	(6.7)	(8.3)	-
Net Profit After Tax	8.9	10.1	12.7	15.6	18.7	20
PDL Cash Collections	69.5	78.0	88.7	96.7	106.5	10
EPS (c)	9.2	10.4	12.1	13.6	14.7	8
DPS (c)	5.8	6.2	6.4	7.2	8.0	11
EBIT Margin	22%	26%	27%	29%	30%	-
Return on Equity (Av)	10%	11%	12%	13%	13%	-
Net Debt/Net Debt + Equity	42%	44%	45%	41%	39%	-
Net Debt/Equity	73%	80%	80%	71%	64%	-

Key Financial Highlights (continued)

\$m	FY10	FY11	FY12	FY13	FY14
Operating Cash Flow	44.5	53.6	57.3	62.2	65.9
PDL Acquisitions and Capex	32.4	51.3	62.6	52.9	85.6
PDL Acquisitions	29.4	49.1	61.0	52.3	82.2
PDL Carrying Value	146	162	185	196	234
Net Borrowings	67	76	88	87	99
Net Borrowings/PDL Carrying Value %	46%	46%	47%	44%	42%
EBITDA	49.1	56.2	63.3	69.2	77.5*
EBIT	16.6	20.2	23.9	28.5	32.4

* Includes PDL amortised cost adjustment

Achieving Quality Earnings and Predictable Future Revenues

- The long standing customer engagement model for Lion Finance is working collaboratively with customers to understand their financial position and capacity, and often the outcome of discussions is agreement to enter a repayment arrangement.
- Subsequently, the Repayment Arrangements and Litigated Account Portfolio continues to grow – it had a face value of \$353m as at 30 June 2014.
- Expected future recoveries from these accounts is \$244m (based on historic yields), providing a stable annuity-like revenue flow.

Total Portfolio	FY10	FY11	FY12	FY13	FY14
Face Value	1.2bn	1.3bn	1.4bn	1.4bn	1.5bn
Number of Accounts	233,000	239,000	214,000	253,000	263,000
Arrangement Book	FY10	FY11	FY12	FY13	FY14
Face Value	196m	221m	274m	300m	353m
Number of Accounts	34,000	35,000	41,000	45,000	51,000

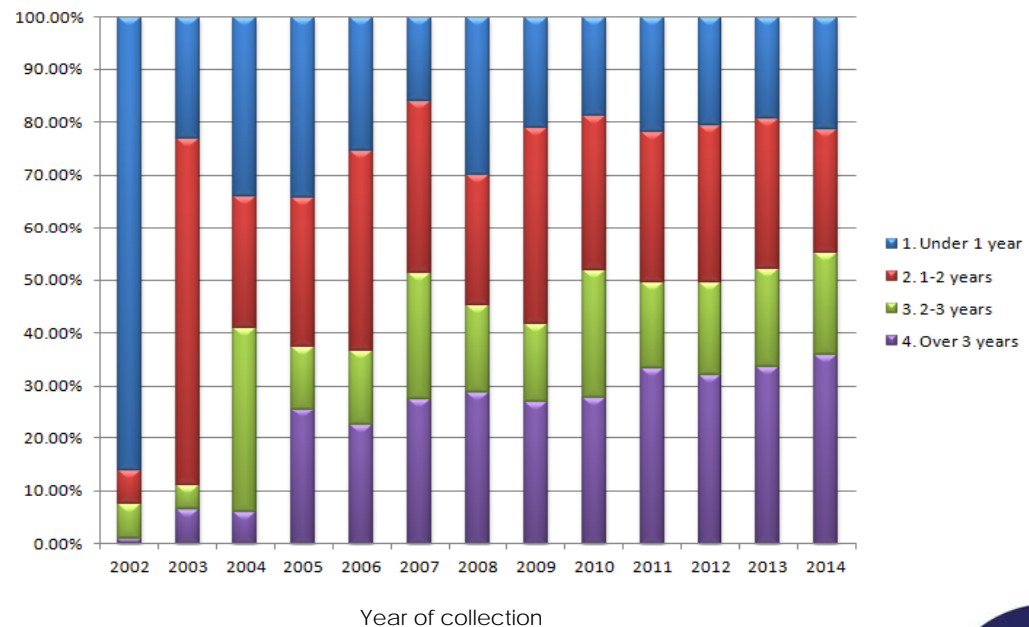
Stronger Capital Position

- In line with capital management strategy, gearing reduced from 41% to 39% over the year (Net Debt / Net Debt + Equity), or 71% to 65% on a Debt / Equity basis.
- Syndicated banking facilities established in January with Westpac and CBA, as announced 29 January 2014.
- Successful Share Placement and Share Purchase Plan completed significantly oversubscribed and raising net \$19.2m.
- All banking covenants met comfortably with further capacity to grow the business as demonstrated in the table below.
- Almost 90% of borrowings are subject to medium term interest rate hedges, in tranches expiring between February 2016 and January 2017 at cash rates of 2.86% to 3.05%.

Bank Covenants as at 30 June 2014	FY11	FY12	FY13	FY14
LVR Ratio less than 55%	46	46	43	41
EBITDA to interest greater than 7 times	11	11	11	15
Tangible net worth greater than \$65m	76	90	102	133

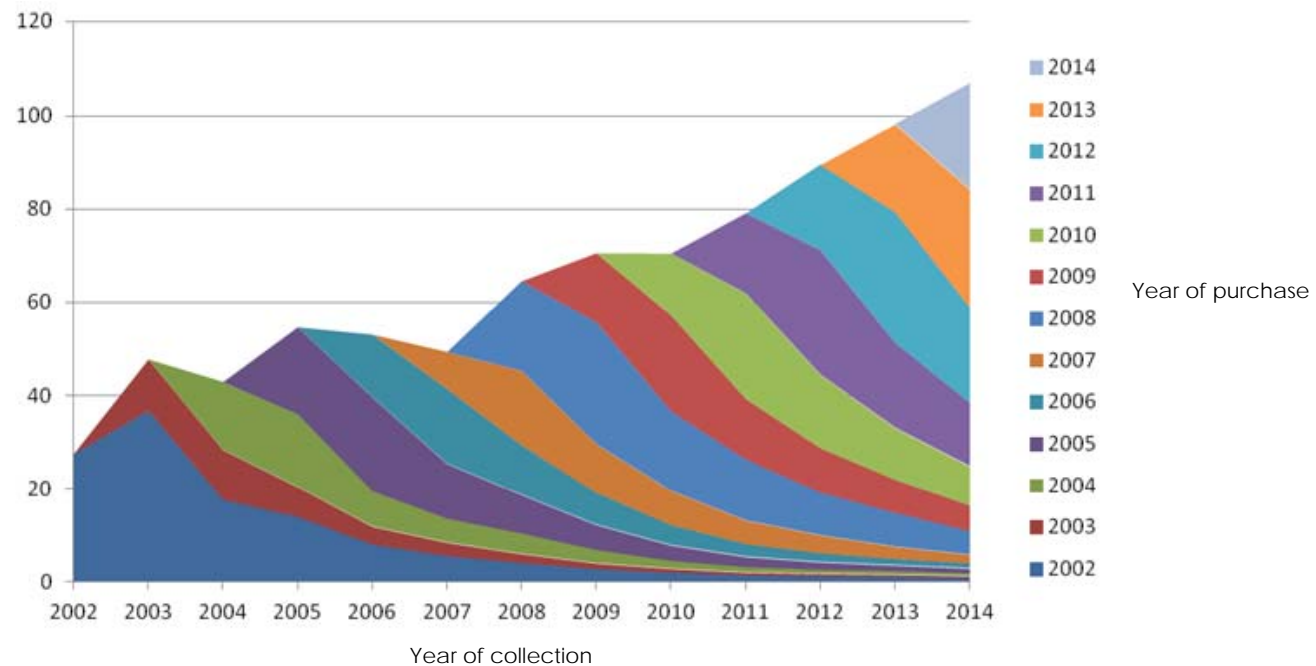
PDL Book Performance

- The Lion Finance PDL portfolio continues to show strong yields.
- Over a third of PDL recoveries originated from PDLs greater than three years old.
- Recoveries from PDLs of more than two years age reached 55%.
- The trend of increasing recoveries from older portfolios reflects the ongoing focus on maximising long term recovery from accounts whilst working collaboratively with consumers (refer page 6).
- The strategy also reduces our reliance on “year one” recoveries and hence reduces necessity to increase PDL purchases every year in order to increase revenue and earnings.



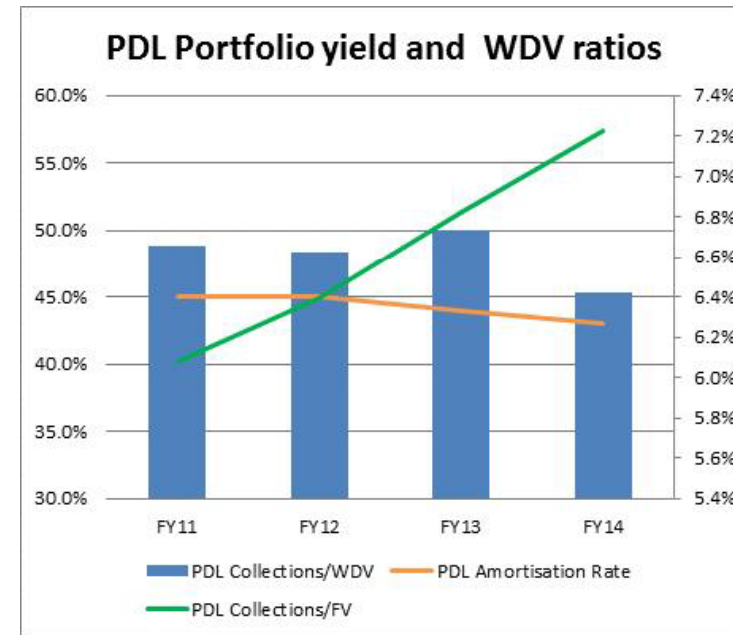
PDL Book Performance (continued)

- PDL recoveries by year of purchase displayed in chart below, reflecting the same trends summarised on the prior page in more detail.
- The more sustained recoveries from purchases in last 6 years is clearly evident here, compared to earlier years where recoveries “tail off” more quickly.



PDL Book Performance (continued)

- \$53m of PDL investment already committed for FY15 period at prices very similar to FY14 – no sustained pricing pressure being experienced, nor are we feeling strong competition in the core PDL market.
- Reflecting point above, we made record PDL investments in FY14. Moving into FY15, the improving cash yield from portfolio (including older debts), and solid foundation of contracts already secured – puts us in position to be flexible with timing and scale of PDL investments in FY15, should pricing trend up.
- Rate of expensing assets (Amortisation rate) has remained in tight range of 43-45% since FY11, with slight downtrend reflecting improvement in portfolio yield and proportion of recoveries from older portfolios.
- FY14 PDL Purchases at \$82.2m highest on record and reflected in the lower PDL Collections/Written Down Value (WDV) ratio.



PDL Risk Management

- PDL portfolio is highly diversified across originators, products and geography – now comprised of well over 2,000 discrete debt parcels acquired over 14 years.
- Data pool created from this rich history of operations now comprises 1.1m accounts, allowing comprehensive models to be derived.
- As a major provider of collection services to many clients who are also debt vendors, we have insights into original credit provider and pre-sale collection processes, giving us a distinct competitive advantage.
- Over recent years, the source of PDL collections has shifted significantly towards various forms of repayment arrangements, reducing cash flow volatility, providing greater certainty of future revenue and earnings and giving us more flexibility in PDL investment timing.

PDL Risk Management (continued)

- Contractual risk mitigation is highly sophisticated compared to 10 years ago, with debts warranted for buyback (refund) for numerous groups of defined situations or “sensitive issues” existing prior to assignment, such as disputes, bankruptcy or unprovable accounts.
- The market has matured and real value is now placed on sustainability, with debt vendors generally taking steps to fairly share risk, avoid unexpected changes to debt quality/volume and preferring to rely on a panel of trusted, proven debt buyers.

These factors not only reduce risks in our debt purchasing business, but also serve as substantial barriers to entry for potential new market entrants.

FY14 Investments > FY15 growth

- **Benefiting from new client engagement model and business development structure:**
 - Collection Services showed fastest top-line growth in FY14 with a number of sizable business development opportunities in the pipeline.
 - Focus on increasing government sector work continues - across the group we now act nationally for 53 Local Government clients and 16 State Government Departments or Authorities.
 - Strong prospects also being pursued in the early receivables outsourcing market.
- **Benefiting from systems investments – “C5” example:**
 - Substantial decrease in time spent training and skilling new inductees, Customer Service Officers (CSOs) focusing less on learning how to operate the system and staff training now concentrated on having more effective conversations with customers.
 - Leading edge data capture processes enable data to be used for both relocation of customers and analytics.
 - In first nine months of operation, C5 enabled the capture of over 1 million pieces of customer information entered by operators and 19 million obtained from external sources.
 - Significantly improved systems for handling despatch and receipt of written communications.
 - Improved document management, client communications and data exchange.
 - Integrated self-service “customer portal” – over 2000 customer visits in June 2014, and almost 23,000 page views, and investment in this innovative platform set to continue.



FY14 Investments > FY15 growth (continued)

- **Benefiting from people investments:**
 - Grew total staff numbers (FTE) by 18% to 820 as at 30 June 2014.
 - Collection staff increased 21% to 625, while at the same time staff with more than 12 months experience increased to 55% from 53%.
 - Support / Total staff ratio reduced slightly from 11.4% to 10.7%.

FTE	FY10	FY11	FY12	FY13	FY14
Collections	394	374	472	517	625
Support	58	66	69	79	88
Executive Team	6	4	4	7	6
Subsidiaries	60	53	67	91	101
Total	518	497	612	694	820
% collection staff < 6 months	18%	17%	33%	28%	30%
% collection staff 6-12 months	12%	11%	13%	19%	15%
% collection staff 1-4 years	50%	52%	34%	32%	37%
% collection staff > 4 years	20%	20%	21%	21%	18%

Growth Strategy

- **FY15 growth will be driven by:**
 - Increasing sales through new and existing products and clients, with particular focus on leveraging core strengths in compliance, innovation, and depth of experience/data.
 - Expanded collection capacity to increase liquidation rates from PDL assets.
 - Continued expansion into high potential market sectors, eg Government.
 - Enduring strategic themes of innovation, differentiation and people-focus will continue to underpin our overall growth strategy.
 - Further expansion and maturity of Collection House International (BPO) Inc – our Manila operation. The existing call centre has been expanded by 40% to 110 seats, as a transitional step towards a larger facility.
- **Longer term growth will be driven by:**
 - Further organic growth of specialist subsidiaries: Midstate CreditCollect and Reliance Legal Group.
 - Product development of new debt solutions for both clients and customers.
 - Ongoing investment in innovation, technology and analytics – with quicker realisation of benefits.
 - Pioneering new debt purchase markets and models.
 - Exploring acquisition or partnership opportunities in adjacent service areas.



Outlook

- Board and Management resolved to deliver consistent earnings growth year on year, while maintaining gearing levels over time to deliver superior risk adjusted returns.
- PDL investment in FY15 not expected to exceed FY14 levels - \$53m of PDL investment already committed under contract.
- EBIT margins expected to remain steady over FY15, with improving trend in second half.
- Steady growth in Collection Services (which forms 41% of group revenue) expected to continue, re-enforcing our diversified sources of overall earnings growth .
- NPAT for FY15 expected within range of \$21 - \$22m.

Expected NPAT FY15
\$21-22m

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