



# **Armida Investment**

C O R P O R A T I O N

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## **FY14 Financial Results**

AGM Presentation 18 November 2014



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## **Armidale Investment Corporation Limited**

**Armidale Investment Corporation Limited (AIK) has three primary investments:**

**1. 94% equity of Hal Data Services Pty Limited (Hal). An increase of 7% since last year**

- Originate operating leases: corporate/government
- Provide IT hardware to corporate/government clients

**2. 29% equity of Riverwise Pty Limited (sole shareholder of Leading Edge Group Limited (LEG)).  
An increase of 6% since last year**

- LEG operates as a telecommunications distributor and buying group; combined turnover of \$285m
- LEG owns Telstra Business Centres, conducts retail and business to business distribution for Spark, (Formerly Telecom New Zealand) and business to business distribution for British Telecom
- LEGs buying group members have over 1,000 retail shop fronts throughout Australia covering core products including; computers, electrical, appliances, telecommunications, jewellery, books and music

**3. Cash. Advanced as loans to Hal to invest in leases**



## **AIK FY14 Consolidated Financial Results and other highlights**

- The Hal and Riverwise investments are held at fair value in the financial statements under the Investment Entity Accounting Standard. The holding value was based on an independent valuation report dated 24 June 2014. The AIK Group recorded a profit after tax of \$3.7m (2013 \$11.1m profit. In 2013 there was a large positive revaluation of Hal which significantly impacted profit)
- The AIK Group's net assets increased to \$36.9m (2013 \$29.0mm)
- Hal continued to generate cash flows from the existing lease book making further payments of \$1.64m to AIK under the Loan Note bringing total repayments since 31 July 2011 to \$8.9m
- AIK increased its equity stake in Riverwise from 22.68%% to 29.02% through underwriting a part of a Riverwise rights issue in December 2013
- There was a \$1.35m revaluation of the Riverwise shareholding during the year
- Bruce Hatchman appointed to the board as Non-executive Chairman on 2 June 2014. Former CEO of Crowe Horwath. 40 years experience in providing Audit and assurance services to listed companies and large private enterprises



## AIK FY14 Consolidated Financial Results and other highlights (continued)

- There were two share issues during the year to raise funding to advance to Hal for new leases amounting to \$4.4m
- A five year profit split agreement entered into with Riverwise in November 2013 payable in Riverwise shares based on NPBT; Up to NPBT \$3.3m - 5%, NPBT \$3.3m - \$6.8m – 7.5%, NPBT above \$6.8m – 10%. This agreement commenced in respect of the FY2014 result

### AIK's asset carrying values are:

Hal Group	\$14.82m
Hal loans for new leases	\$11.60m
<b>Total Hal Investment</b>	<b>\$26.42m</b>
Riverwise	\$10.2m
Cash at bank	\$0.7m
Other	\$0.69m
<b>Total Assets</b>	<b>\$38.01m</b>



# HAL GROUP

## Company Overview

- Established 19 years ago by Andrew Grant and two others who remain active in the business
- An equipment leasing and IT equipment trading company
- An originator and servicer of a current lease book of \$51m at original equipment cost
- Continued expansion of new lease business with \$12.0m of new leases at original equipment cost in FY2014 (\$7.3m in FY2013)
- 25 employees
- A proven, rental-based equipment funding model that is well suited to the needs of businesses
- More than 4,000 rental agreements currently in place
- Well-managed/experienced credit and residual asset risk system/people
- A low cost yet scalable infrastructure
- Stable systems and processes



## Business Model

- Rental assets acquired for specific rental contracts
- Rental charged monthly or quarterly by direct debit in advance
- Contract terms from 1 year to 5 years, majority are 3 years
- At the end of the contract, customers either purchase the equipment, return the equipment, upgrade to a new lease or continue renting
- Wide range of equipment
- Lessees are small to large corporates and government
- Can execute transactions from \$1k to \$20m
- Customer value proposition
  - Frees up working capital
  - Upgrade equipment during the rental term
  - Short term (12 month) agreements
  - Rental payments are normally 100% tax deductible
  - Renting is off 'balance sheet' meaning it doesn't affect client's capacity to borrow for future expansion
  - Simple application process



## **Business Model (continued)**

- Cash positive funding. The implicit rate in the rental exceeds the funding rate. (Present value of the interest rate spread)
- Rental extensions beyond the initial contract term
- Proceeds from sale of assets at the end of the rental term
- Upgrading equipment during the lease term



## Risk Management

Hal Group's primary risk is rental customers not paying rentals and not reaching the end of their rental term where most profits are made. This risk is mitigated by the following:

- The company has over 4,000 rental agreements in place so risk is spread over many customers. Largest client represents less than 5.0% of rental income
- Assets funded are business assets essential to the operation of the customer
- Exposure is spread across many different industries and geographic locations
- Efficient processes in place to re-market ex-rental equipment that is returned, usually through the IT equipment trading entity. Most equipment is sold to the end user
- Efficient processes in place to collect rentals due and enforce contract terms if necessary. Most recovery activities are conducted in house.



## Funding

Hal Group has a range of funding options to support the growth of the business for the acquisitions of equipment for rental to customers

- Sale of receivables
- Principal and agent agreement
- Debenture program (debt funding)
- Debt funding from its main shareholder, AIK and use of Hal working capital (only used short term to 'warehouse' leases)
- These options will underpin the origination of new rental contracts in the FY2015 year.



## Outlook

- Steady growth in lease origination for FY2015. In the first 4 months of FY2015 lease origination at Original Equipment Cost is \$9.0m (FY2014 whole year \$12.0m)
- Additional sales resources recruited and writing new business
- Developing vendor relationships to enable better consistency of business
- Managing credit, debt collection and residual asset risk – ongoing business focus
- Further expansion of funding sources



## Riverwise/Leading Edge Group

### FY14 Results

- The 2014 profit before tax of the Riverwise Group was \$2.3m (2013: \$3.6m) There were two material non-recurring matters amounting to \$0.9m which impacted the result
- Revenue at \$285m was slightly down on 2013 by \$10m with gross margin on sales increasing slightly from 18% to 20%.
- A rights issue raised \$3.3m to fund future expansion and pay down debt
- Total equity increased from \$17.9m to \$23.2mm.
- Cash flows improved with net cash provided by operating activities \$5.4m (FY2013 deficit of \$2.1m)
- The primary funder to the Group, St George Bank have renewed the \$30m facility
- AIK continues to provide the services of Andrew Grant and Raylee Carruthers to manage the business. Andrew has been appointed a Director of Riverwise and Raylee appointed CEO.



## Outlook

- Continue to work with the buying groups to attract new members, provide more services to members and work with members to grow their businesses
- Consider establishing new buying groups
- Continue to work with telecommunications partners in Australia, NZ, and UK
- Manage costs
- Refine infrastructure and improve processes and efficiencies across the business



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