COLLECTION HOUSE | 2014 Half Year Results Presentation

Matthew Thomas
Managing Director and Chief Executive Officer

RESULTS OVERVIEW

- NPAT increased 16.2% (from 1H13) to $9.4m driven by higher revenues and cost management
- Notwithstanding capital raising during the half, EPS increased 3.3% and dividend per share increased 8.3% to 3.9 cents per share
- Collection Services revenue increased 14.4% in 1H14 compared to 1H13
- C5 collection platform deployed across PDL business in Australia and The Philippines, replacing legacy Controller system
- Despite significant operational and system changes, revenue from the Purchased Debt Ledger segment increased 6.5% from 1H13

RESULTS OVERVIEW (CONTINUED)

- As outlined at AGM, first half of FY14 has seen continued investments in growth initiatives required to execute the ‘gear shift’ driving our growth strategy
- Consistent with the plans explained at the AGM, capabilities have been enhanced in terms of people, structure, systems and balance sheet strength
- Syndicated banking facilities established and announced 29January 2014
- $38.4m invested in PDLs during first half (highest since 2009), with over $70m committed for FY14 (investment now expected to be $75-90m over the full year)
- Gearing reduced notwithstanding higher investment levels – 1H14 Gearing (Net Debt / Net Debt + Equity Ratio) was 37.2% compared with 1H13 of 45.5%

KEY FINANCIAL HIGHLIGHTS

$m	1H11	1H12	1H13	1H14	%
Revenue	38.7	44.4	47.3	52.0	9.9
Profit Before Tax (including significant items)	7.4	9.2	11.6	13.3	14.5
Taxation	(2.3)	(2.9)	(3.5)	(3.9)	
Net Profit After Tax	5.1	6.4	8.1	9.4	16.2
PDL Cash Collections	39.7	43.9	48.7	51.5	5.6
EPS (c)	5.3	6.4	7.3	7.6	3.3
DPS (c)	3.1	3.2	3.6	3.9	8.3
EBIT Margin	*26%*	*28%*	*31%*	*31%*	
Return on Equity (Annualised)	*10.5%*	*11.9%*	*12.6%*	*13.2%*	
Net Debt/Net Debt + Equity	*43.8*	*44.7*	*45.5*	*37.2*	
Net Debt/Equity	*78.1*	*81.0*	*83.4*	*59.3*	

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KEY FINANCIAL HIGHLIGHTS (CONTINUED)

$m	1H11	1H12	1H13	1H14
Operating cash flow	25.7	25.9	29.7	26.5
PDL acquisitions and capex	25.8	31.7	34.7	40.8
Free cash flow	(0.1)	(5.8)	(5.0)	(14.3)
PDL Acquisitions	24.0	30.5	33.9	38.4
PDL Carrying value	153	174	198	214
Net Borrowings	73	84	97	87
Net Borrowings/PDL Carrying Value %	48%	48%	49%	41%
EBITDA	28.3	31.6	35.9	37.7
EBIT	10.1	12.31	14.7	16.0

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ACHIEVING QUALITY EARNINGS AND PREDICTABLE FUTURE REVENUES

- Repayment Arrangements and Litigated Account Portfolio grew to $332m face value as at 31 December 2013
- Expected future recoveries from these accounts is $230m (based on historic yields), providing a stable annuity-like revenue flow
- Future recoveries from the $1.1bn of non-arrangement accounts being actively worked is additional to the above expected recoveries
- While it is evident the total Face Value of the portfolio reduced over calendar 2013, the reduction has been mostly effected through the closure or sale of older, lower quality debts in the portfolio

Total Portfolio	**1H10**	**1H11**	**1H12**	**1H13**	**1H14**
Face Value	1.0bn	1.2bn	1.4bn	1.6bn	1.4bn
Number of accounts	180,000	202,000	236,000	250,000	231,000

Payers Book	**1H10**	**1H11**	**1H12**	**1H13**	**1H14**
Face Value	182m	205m	229m	291m	332m
Number of accounts	31,000	34,000	36,000	43,000	48,000

STRONGER CAPITAL POSITION

- In line with capital management strategy, gearing reduced from 45.5% to 37.2% over the year (Net Debt / Net Debt + Equity), or 83.4% to 59.3% 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 during the half, 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
- FY14 PDL investment now expected to be $75m-$90m. As of the end of December 2013, $70m of this has already been transacted or is under contract
- Availability of debt for sale at reasonable prices remains buoyant, noting we have already committed to 138% of the amount of PDL investment in FY13

Bank Covenants as at 31/12/2013	1H11	1H12	1H13	1H14
LVR Ratio less than 55%	46.5	46.5	48.0	39.9
EBITDA to Interest greater than 7 times	15.7	10.2	10.7	11.8
Tangible net worth greater than $65m	74.2	83.7	95.9	125.5

UPDATE ON FY14 OPPORTUNITIES

- Maximising benefits through offshore operating capabilities as they mature
  - *Planning is ongoing to expand our capacity in the Philippines*
  - *A New Site Director has been appointed to lead CH International into the future*
  - *Additional Australian clients have authorised use of our Manila based operations*
- Collection Services organic growth continued through first half
  - *Revenue up 14.4% compared to 1H13, with good opportunity pipeline in place*
  - *Further organic revenue growth is anticipated in this segment, albeit in a challenging operating environment*
- Further diversification of client base
  - *Increased client engagement and operational performance growing share of business*
  - *Market profile, tender opportunities and new business under negotiation increasing across new business sectors*
- Exploring acquisition opportunities with unique value and/or short term EPS accretive benefit
  - *Midstate CreditCollect (MCC) formed through the merger of Midstate Credit Management Services and CreditCollect acquisition, now comprises an incorporated legal practice and commercial collection services business, which serves as a boutique brand offering, complementing Collection House's high volume service offering*

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LONGER TERM GROWTH STRATEGY

- Enduring strategic themes of **innovation, differentiation and people-focus** will continue to underpin our overall growth strategy
- Growth will be driven by:
  - leveraging our “one stop shop” diversified model
  - engaging in broader markets/sectors to further diversify
  - introducing leading edge financial solutions to both clients and customers
  - exploring acquisition or partnership opportunities in adjacent service areas
  - further engagement within strong existing client relationships to continue non-PDL growth
- Enhancing customer interactions through multiple channels will include ongoing focus on web based technologies and leveraging our new collection platform C5
- Additionally, we remain committed to an ongoing investment in operational analytics and innovation

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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
- Following successful tenders during the half and ongoing availability of attractive opportunities, our PDL investment for FY14 is updated to $75m-$90m (from $60-$70m)
- Steady growth in Collection Services (which forms 30% of group turnover) expected to continue, re-enforcing our diversified sources of overall earnings growth
- NPAT guidance for FY14 revised to $17.5m - $18.5m (from $17 - $18m NPAT)

Resolve.

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