

# FY18 Results Presentation

31 July 2018



Credit Corp Group



Thomas Beregi, CEO  
Michael Eadie, CFO

# Leadership in the credit impaired consumer segment...

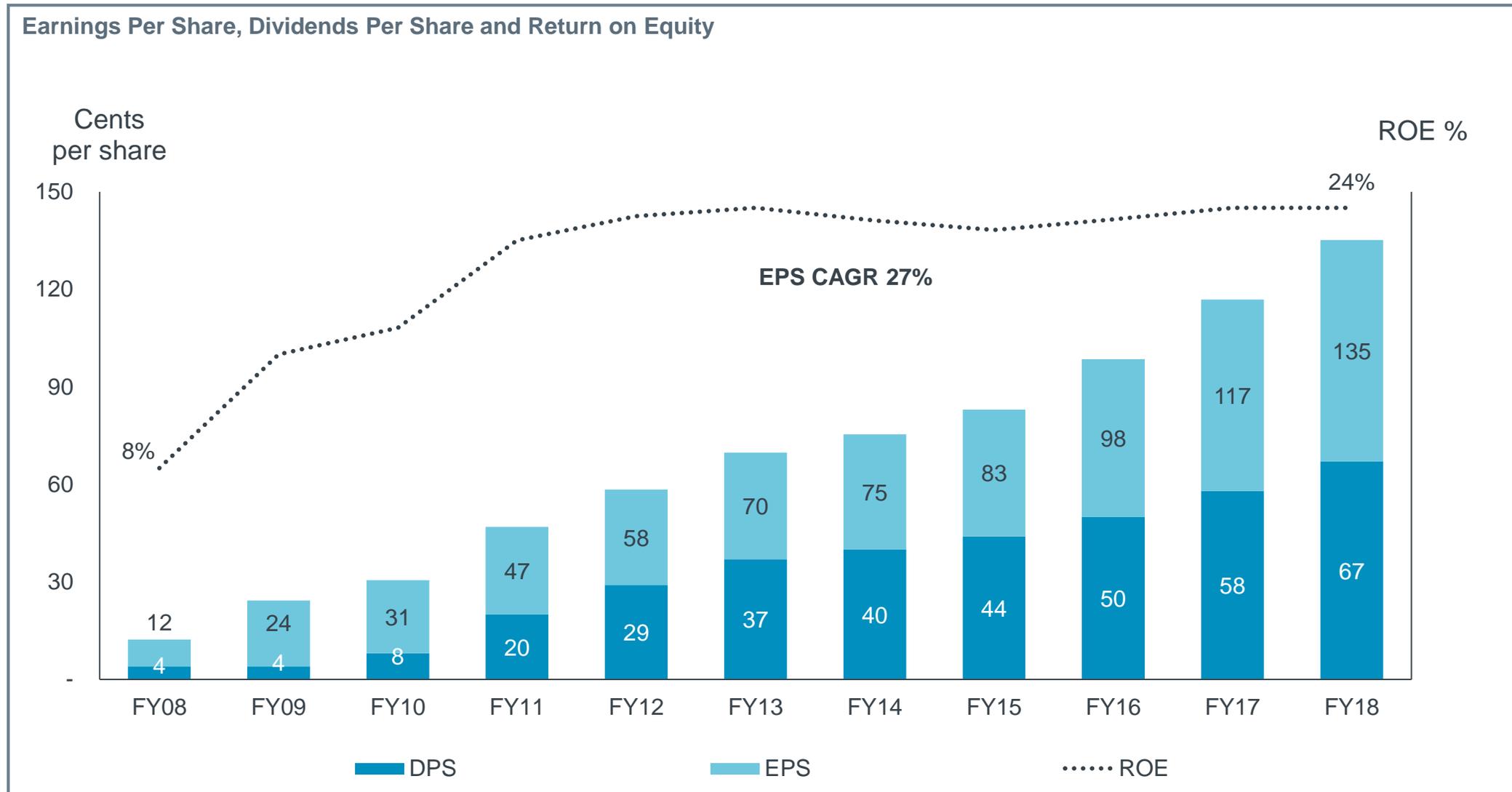
ANALYTICS & DISCIPLINE	OPERATIONAL EXCELLENCE	SUSTAINABILITY & COMPLIANCE
<b>Australian / NZ debt buying</b>		
<ul style="list-style-type: none"> <li>• Largest database</li> <li>• History of pricing accuracy</li> </ul> <b>Australian / NZ lending</b>	<ul style="list-style-type: none"> <li>• Highest asset turnover <sup>1</sup></li> <li>• Lowest cost to collect <sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• No adverse orders or undertakings</li> <li>• Low complaint rate</li> <li>• \$1.3bn in ongoing repayment arrangements</li> </ul>
<ul style="list-style-type: none"> <li>• Leverage knowledge of consumer</li> <li>• Up-front loss provisioning</li> <li>• Analytical monitoring</li> </ul> <b>USA debt buying</b>	<ul style="list-style-type: none"> <li>• Automated decisioning</li> <li>• Collection strength</li> <li>• Unmatched efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• APRs below cap applicable to mainstream credit</li> <li>• Regulatory upside - no 'payday loans'</li> </ul>
<ul style="list-style-type: none"> <li>• Adapted knowledge to US environment</li> <li>• Large market opportunity</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity up by 30% over 2 years</li> <li>• Emphasis on payment arrangements and a lower proportion of litigated outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Low regulator complaint rate</li> <li>• Strong client audit outcomes</li> </ul>

- Long-term growth
- ROE 16% - 18%
- Low gearing

1. FY18 ratio of cash collections from PDLs to average PDL carrying value in Australian / NZ debt buying operation of 1.2x

2. FY18 ratio of cash costs of the Debt Ledger Purchasing segment to collections of 36%

...has produced sustained financial performance...



...delivering 17% earnings growth in 2018...

FY18 Financial results				
	FY18	FY17	\$ change	% change
Aus/NZ debt buying <sup>1</sup>	\$195.7m	\$186.4m	+ \$9.3m	+ 5%
Aus/NZ lending	\$79.3m	\$66.4m	+ \$12.9m	+ 19%
US debt buying	\$24.0m	\$13.1m	+ \$10.9m	+ 83%
<b>Revenue total</b>	<b>\$299.0m</b>	<b>\$265.9m</b>	<b>+ \$33.1m</b>	<b>▲ + 12%</b>
Aus/NZ debt buying <sup>1</sup>	\$46.3m	\$43.9m	+ \$2.4m	+ 6%
Aus/NZ lending	\$16.1m	\$12.3m	+ \$3.8m	+ 31%
US debt buying	\$1.9m	(\$1.0m)	+ \$2.9m	>100%
<b>NPAT total</b>	<b>\$64.3m</b>	<b>\$55.2m</b>	<b>+ \$9.1m</b>	<b>▲ + 17%</b>
<b>EPS (basic)</b>	<b>135.1cps</b>	<b>116.8cps</b>	<b>+ 18.3cps</b>	<b>▲ + 16%</b>
<b>Dividend</b>	<b>67.0cps</b>	<b>58.0cps</b>	<b>+ 9.0cps</b>	<b>▲ + 16%</b>

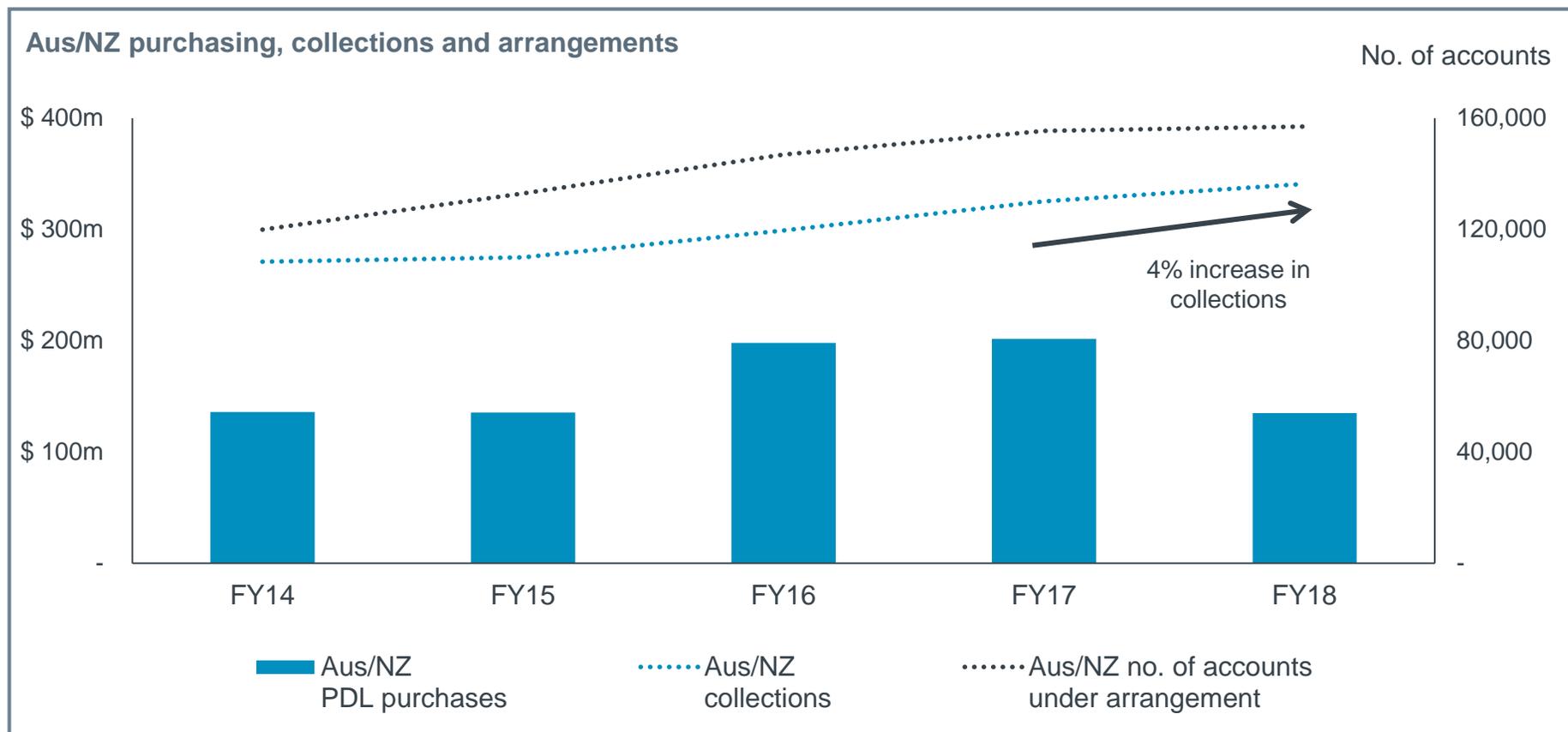
1. Aus/NZ debt buying includes agency activities

...while positioning CCP to seize opportunity across all segments...

Segment	Market conditions	Credit Corp's response
<b>Aus/NZ Debt buying</b>	<ul style="list-style-type: none"><li>• Continued pricing competition</li><li>• Compliance is an increasing sensitivity for credit issuers</li></ul>	<ul style="list-style-type: none"><li>• Momentum into FY19 provided by strong operational performance</li><li>• Leverage compliance credentials</li><li>• Maintain investment discipline</li></ul>
<b>Aus/NZ Lending</b>	<ul style="list-style-type: none"><li>• Accelerated consumer demand for cash loans</li><li>• Signs of credit rationing likely to create opportunities</li></ul>	<ul style="list-style-type: none"><li>• Drive loan book growth</li><li>• Expand auto lending pilot</li></ul>
<b>US Debt buying</b>	<ul style="list-style-type: none"><li>• Pricing conditions remain favourable</li></ul>	<ul style="list-style-type: none"><li>• Operational improvement to achieve competitive superiority</li><li>• Growth to capture the market opportunity</li></ul>

## Solid momentum in Aus/NZ debt buying...

- Collections growth of 4% despite reduced investment
- Stable bank of recurring payment arrangements provides a strong starting position for FY19
- FY19 Aus/NZ collections and earnings on track to achieve FY18 levels



## Supported by improved operational performance

### Pricing accuracy and returns on track

- Total cumulative collections above aggregate pricing expectations
- Total collections up 7% over the year
- Aus/NZ collections up 4% despite reduced purchasing

*(Refer to Appendix 2 and 3)*

### Arrangement book growth

- Face value of accounts under arrangement maintained at a record level of \$1.3bn at Jun-18
- Payments under arrangement represent 81% of collections

*(Refer to Appendix 5)*

### Efficiency

- Productivity up by 10% over the prior year
- Aus/NZ productivity up by 7% over the prior year

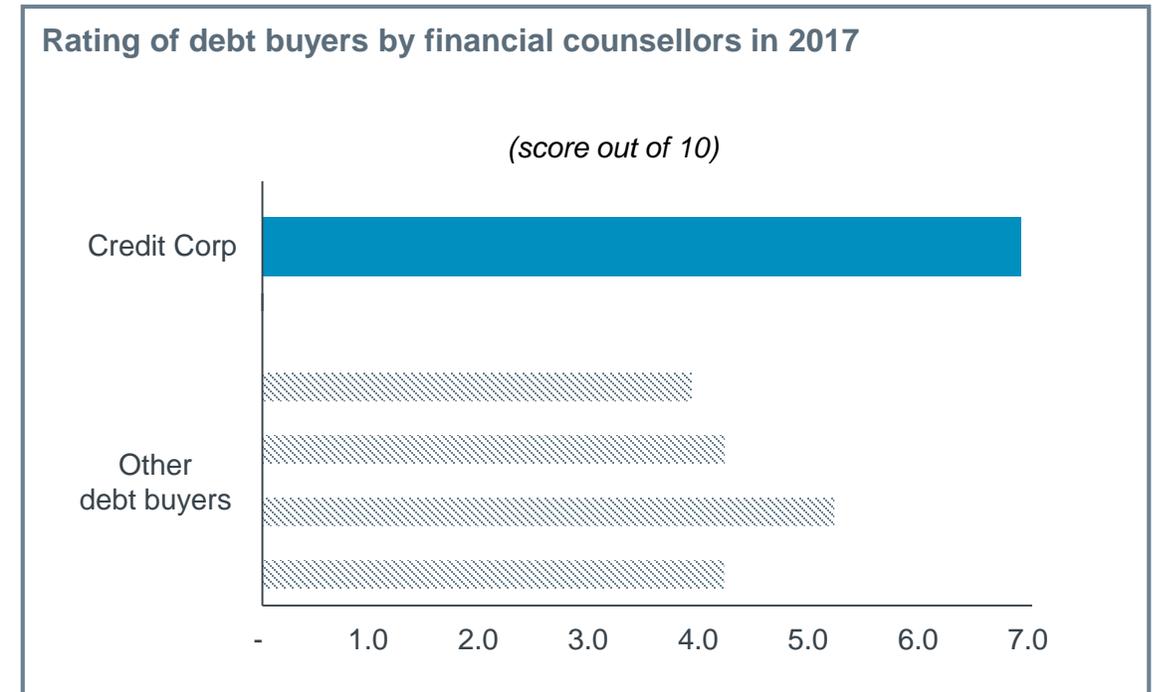
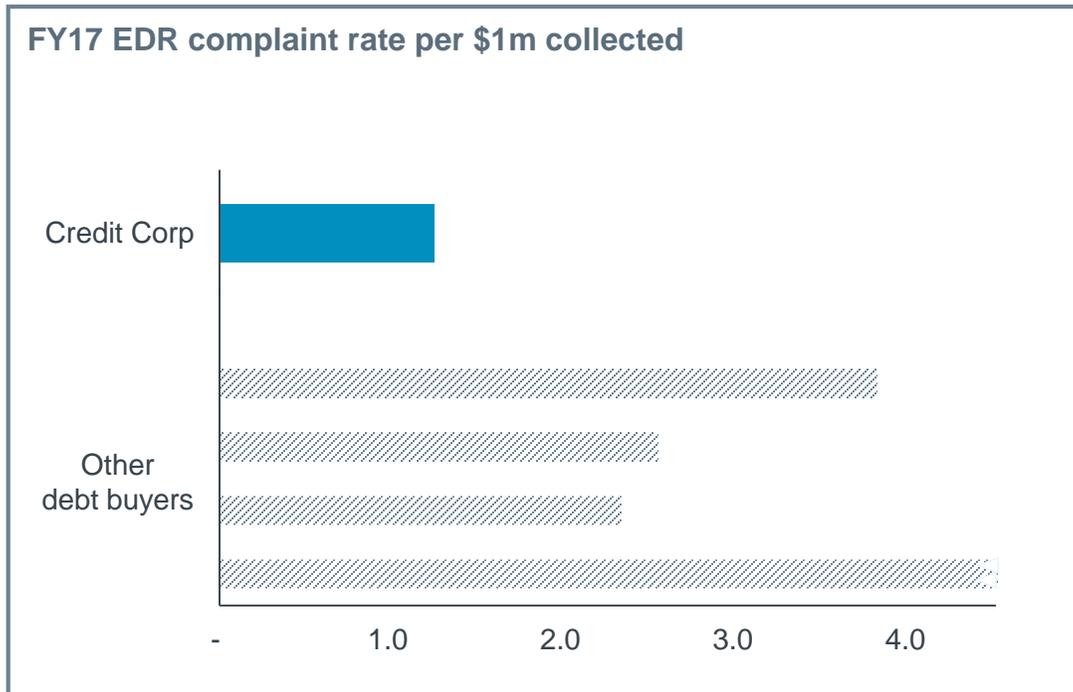
*(Refer to Appendix 4)*

### Continuous improvement focus

- Improved rates of conversion to paying outcomes
  - Systems enhancements
  - Ongoing skills development
- Technology improving contact rates in the US

## Heavily differentiated compliance model...

- Peerless compliance record
  - No regulatory orders or undertakings despite being the largest and longest established operator
  - No reportable External Dispute Resolution (EDR) systemic issues
- Superior EDR complaint rate <sup>1</sup>
- Clear leader in survey conducted by Financial Counselling Australia <sup>2</sup>



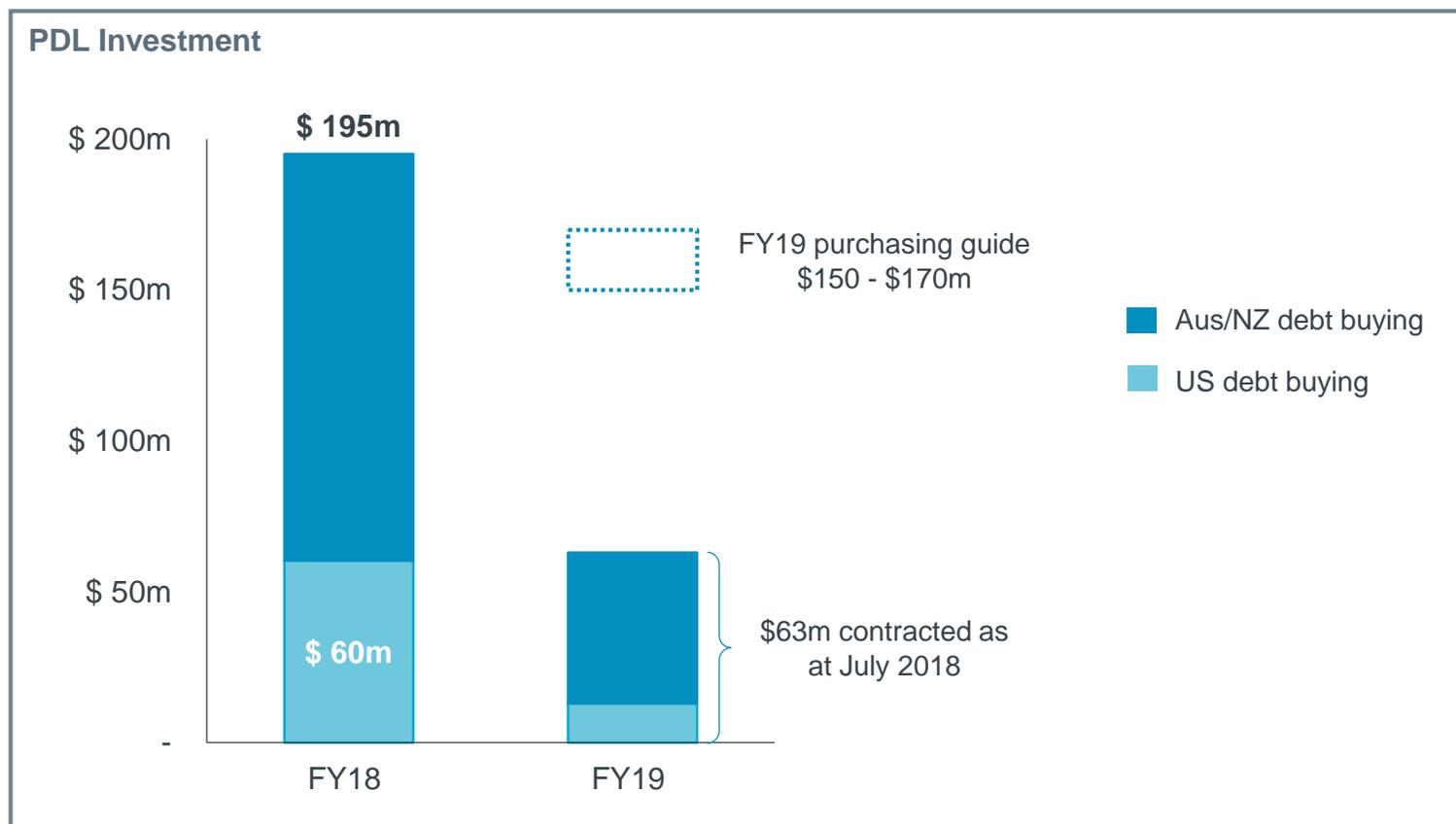
1. No. of complaints reported to EDR services divided by total PDL collections expressed in millions of dollars

2. Financial Counselling Australia: National Rank the Banks Survey 2017, March 2018, page 17

[https://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Publications/Reports/Rank-the-Banks-2017-Final-1-\(1\).pdf](https://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Publications/Reports/Rank-the-Banks-2017-Final-1-(1).pdf)

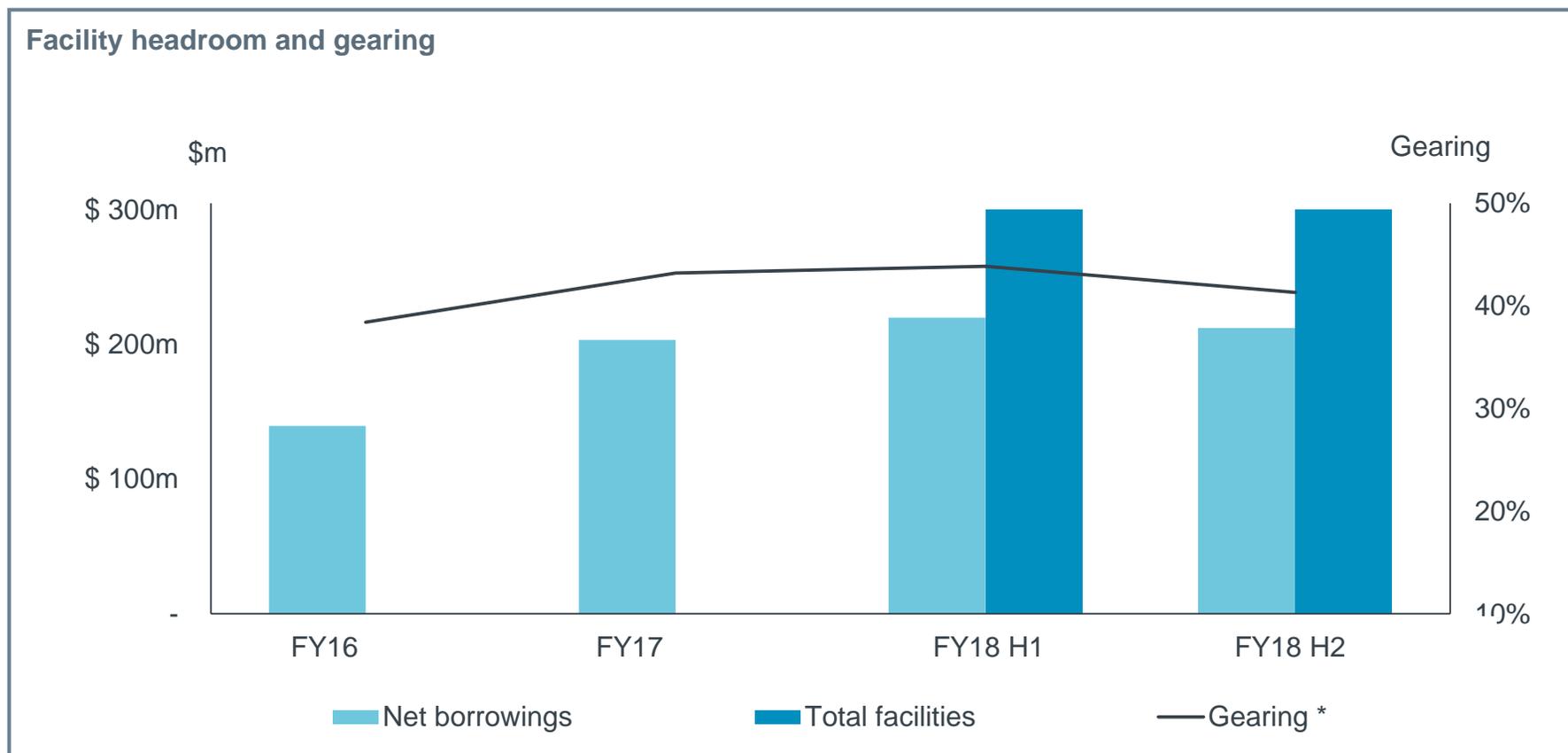
## ...underpins a solid purchasing outlook

- Purchasing outlook comparable to FY18 at the same point
- Compliance position has delivered uncontested purchasing
- Key US forward flows renewable in early FY19

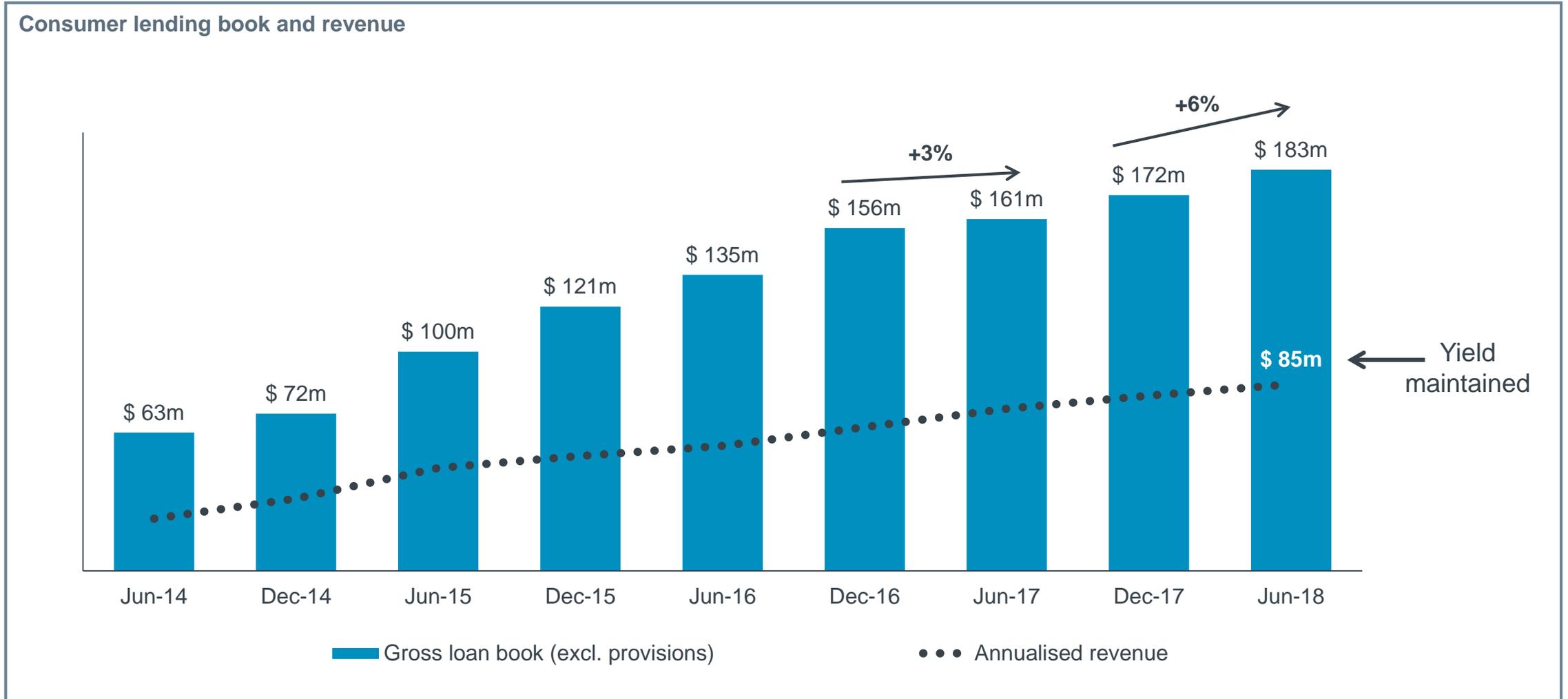


## Financial capacity in place to seize any additional opportunity

- Free cash flow has reduced gearing to 41%
- Strong cashflow will increase headroom over FY19

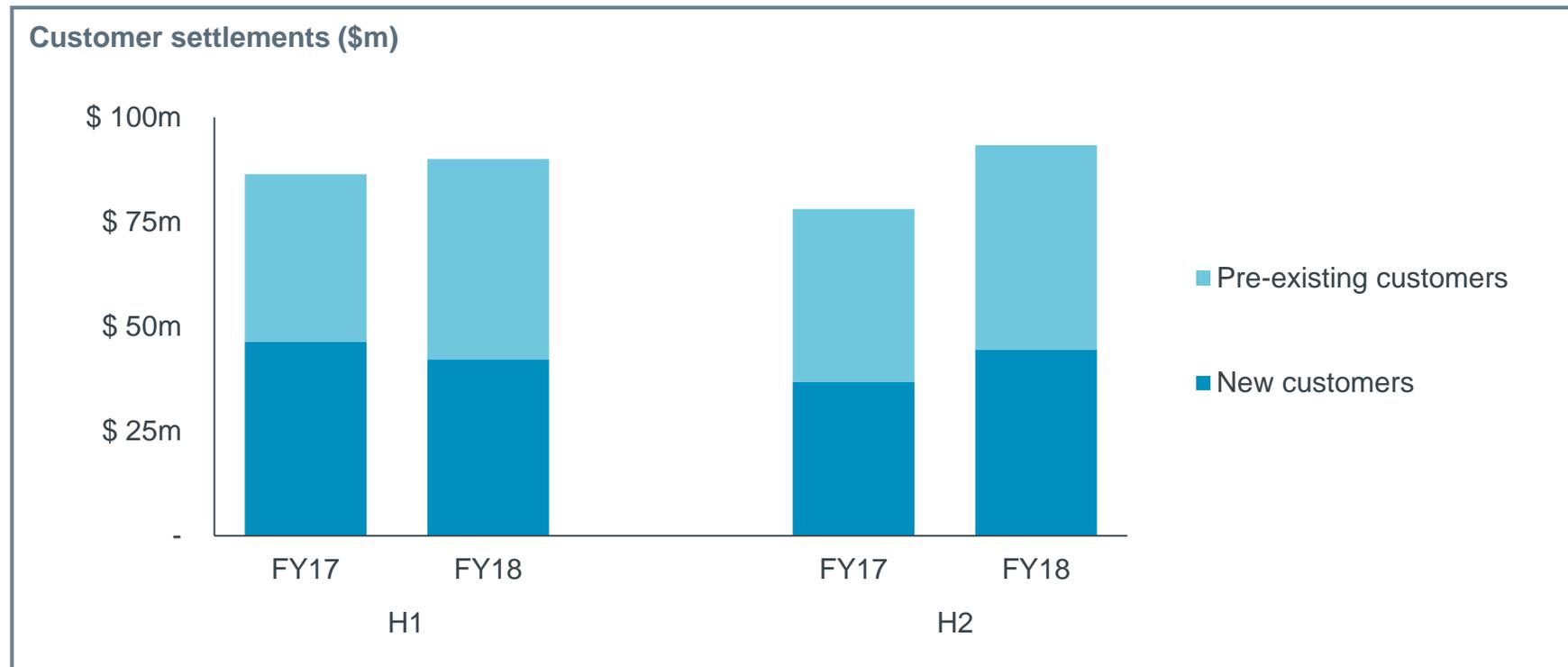


# Consumer loan book on accelerating growth trajectory...



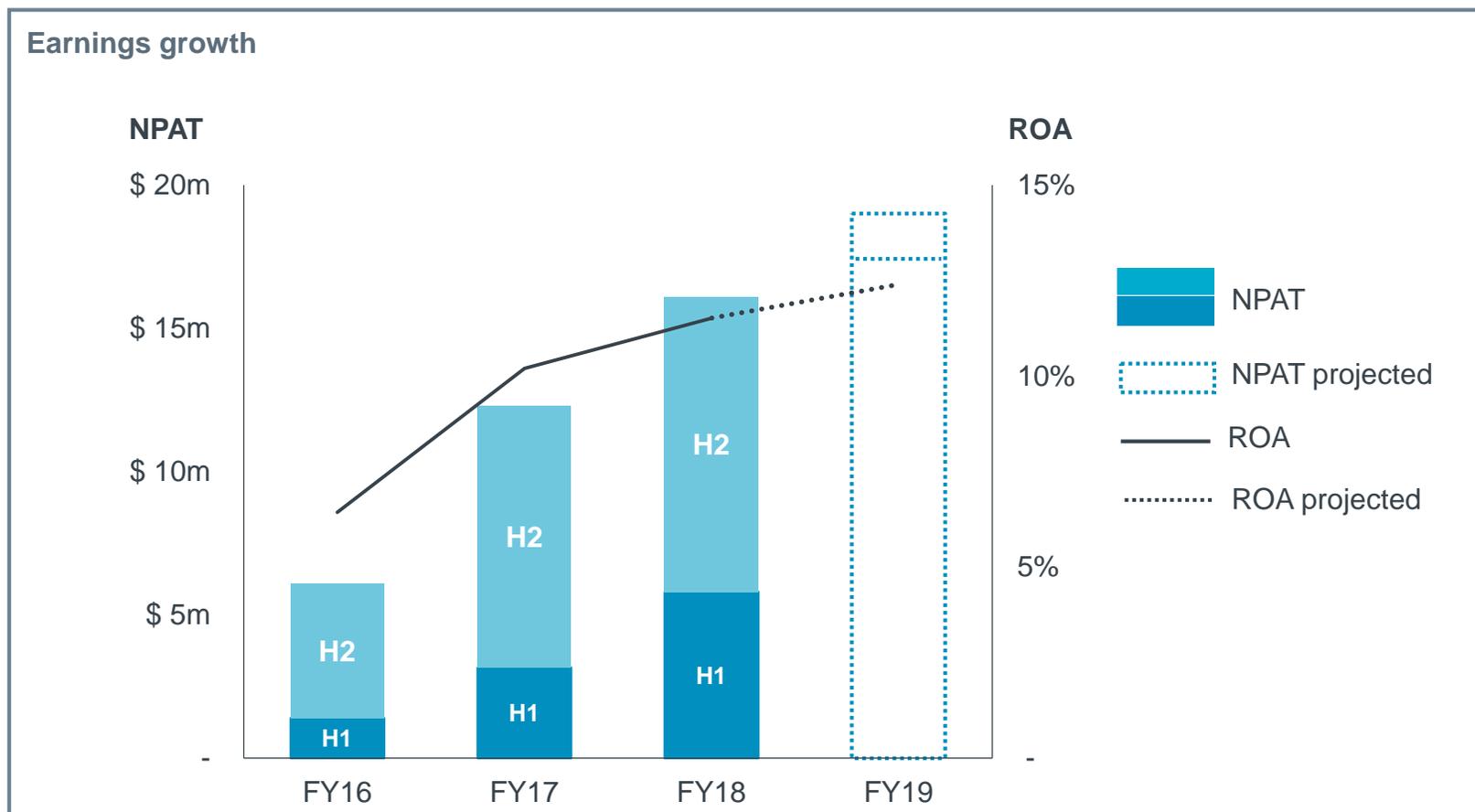
## ...due to strong customer acquisition and retention...

- Total settlements up by 11% over the prior year
- H2 settlements up by 19% over the pcp
- H2 new customer settlements up by 21% over the pcp



## ...which is driving impressive earnings growth...

- 31% increase in lending NPAT to \$16.1m in FY18
- On track for strong growth in FY19
- Target returns achieved



## ...while new lending opportunities emerge

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- Changing compliance standards are resulting in tighter rationing of credit
  - Increasing demand in Credit Corp's segment
- Credit Corp's auto lending product pilot showing encouraging results
  - Existing 'vend and lend' product book grew by 20% in FY18 to \$13m
  - Settled \$6.8m of loans during year including \$2.1m in Q4
  - Poised to grow further in FY19



## US debt buying economics in line with established competitors...

- US asset turnover comparable to listed competitors despite limited ‘tail’ of collections
- Cost to collect also similar despite the operation still ramping up and up-front expensing of legal costs

### US debt buying economics

	Asset turnover <sup>4</sup>	Cost to collect
CCP	0.7	44.4% <sup>1</sup>
ECPG	0.9	44.2% <sup>2</sup>
PRAA	0.8	39.8% <sup>3</sup>

1. FY18 CCP US debt buying segment only

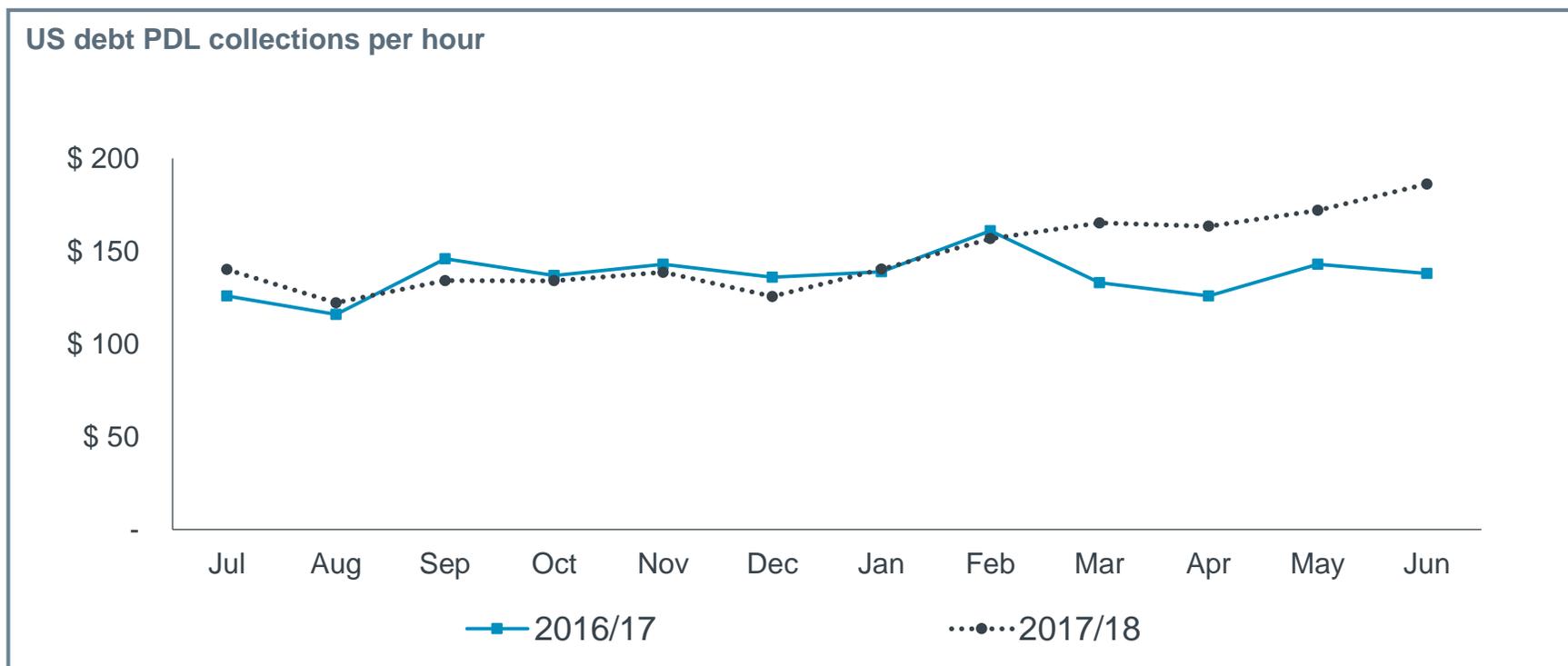
2. Full year 2017 US debt buying segment only. Encore Capital Group (NASDAQ: ECPG) is a US-listed global debt buyer

3. Full year 2017 blended rate (includes US, Europe and Insolvency). Portfolio Recovery Associates Group (NASDAQ: PRAA) is a US-listed global debt buyer

4. Ratio of cash collections from PDLs to average PDL carrying value (CCP: FY18 US debt buying segment only and ECPG / PRAA full year 2017 US debt buying segment only)

## ...while we continue to focus on growth and improvement...

- New facility opened in June to enable more rapid headcount growth
- Productivity improvement over H2
  - New technology improving contact rates
  - Technology enhancements and skill development driving conversion to paying outcomes



## ...to capture the market opportunity...

- Strong growth in unsecured credit
- Charge-offs rates increasing to 3.8%
  - Still below long-term historical average of 4.5% - 5.0%
- Pricing remains favourable with recent operator failures preventing excess demand
  - SquareTwo bond default - 2017
  - Mid-tier buyer withdrawing from forward flows - 2018

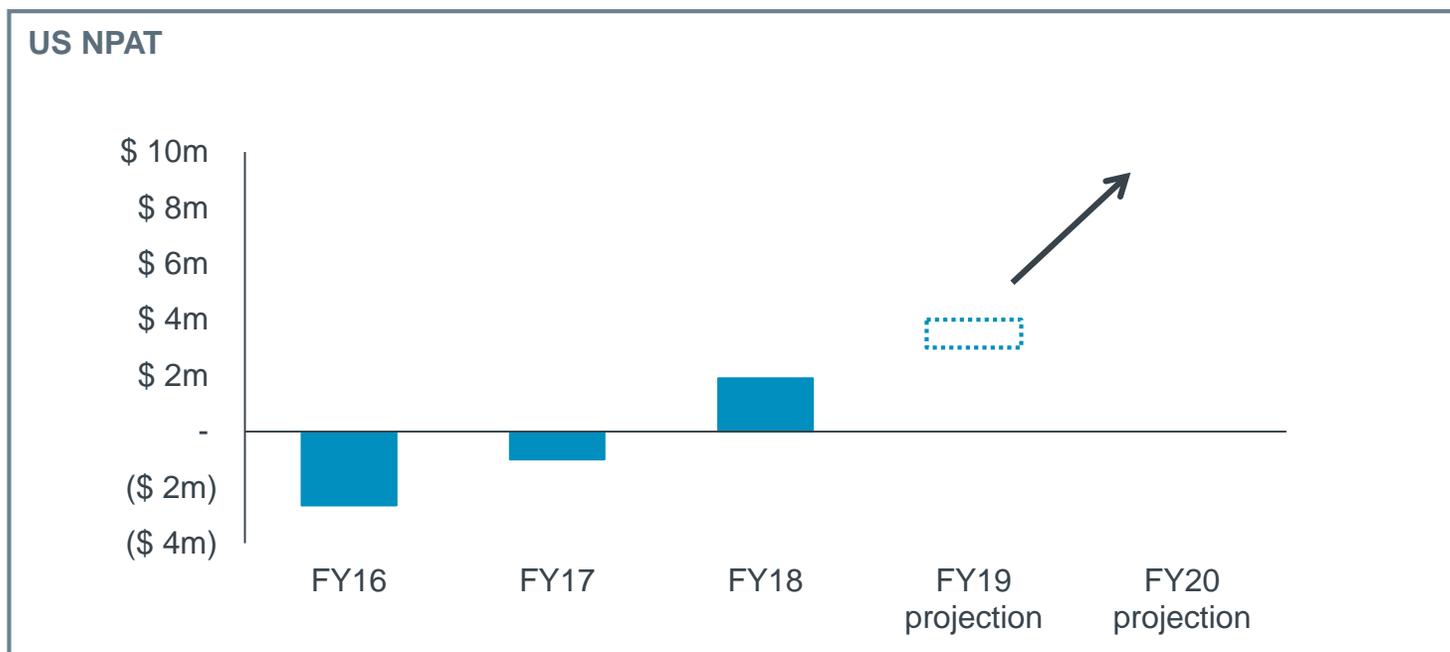


1. Total Revolving Credit Outstanding, Federal Reserve Economic Data (<https://fred.stlouisfed.org/graph/?g=KHD>)

2. Charge-Off Rate on Credit Card Loans, All Commercial Banks, Federal Reserve Economic Data (<https://fred.stlouisfed.org/series/CORCCACBN>)

## ...and grow profits

- US is now profitable, achieving an NPAT of just under A\$2m in FY18
- Despite planned headcount growth, profitability will increase in FY19
- Profitability to accelerate in FY20 with increased investment and ongoing operational improvement
- Availability of ledgers will not be a constraint
  - Recently added to the bidding panel of a major issuer
  - Still purchasing at minimum lot sizes under existing forward flow contracts



## Outlook is for a year of solid earnings growth

### FY19 guidance

<b>PDL acquisitions</b>	\$150 - \$170m
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<b>Net lending</b>	\$45 - \$50m
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<b>NPAT</b>	\$67 - \$69m
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<b>EPS (basic)</b>	140 - 144 cents
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<b>DPS</b>	70 - 72 cents
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# Questions



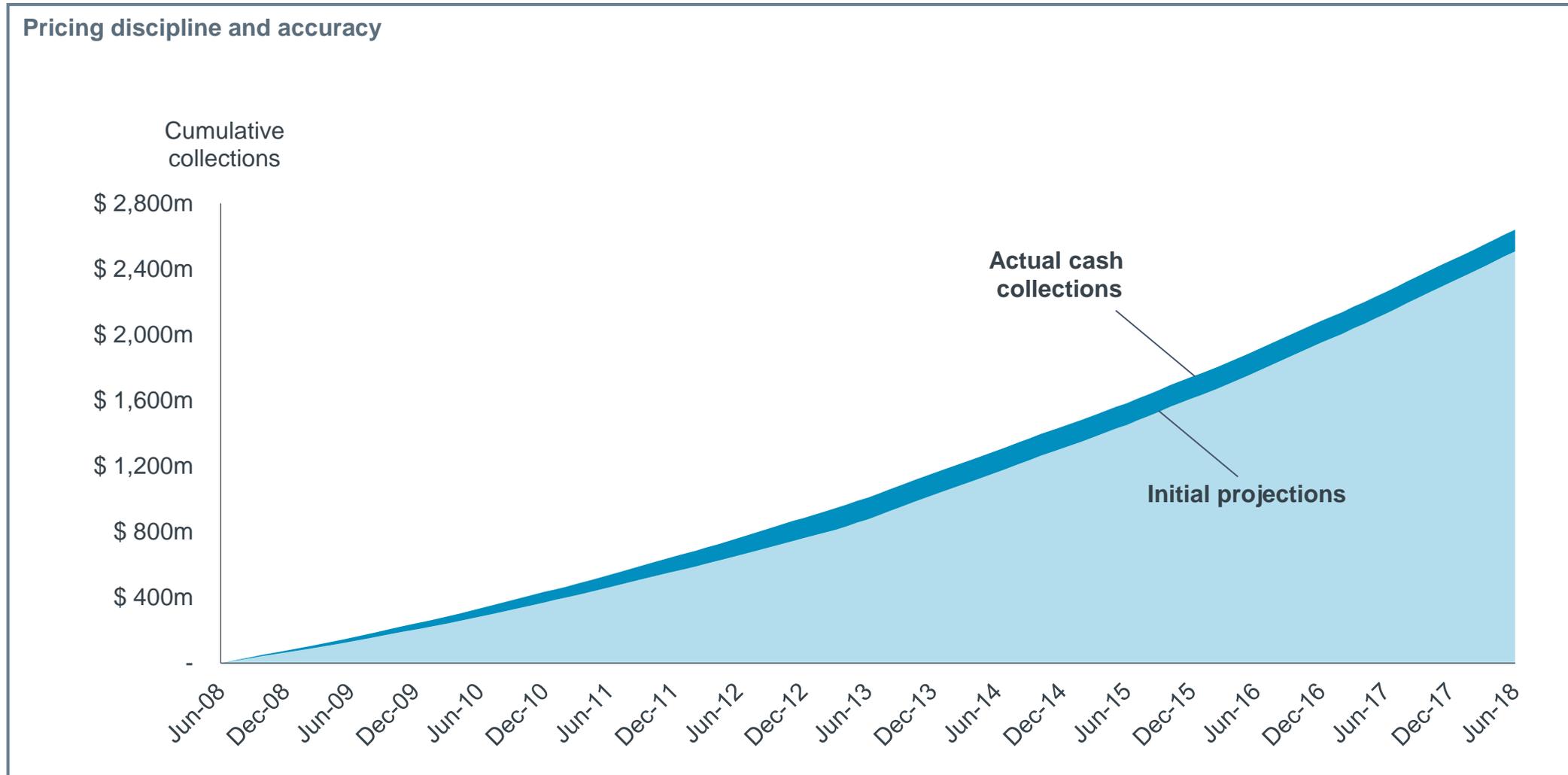
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## Appendix | Key operating metrics

## Appendix 1 | Operating cash flows and gearing

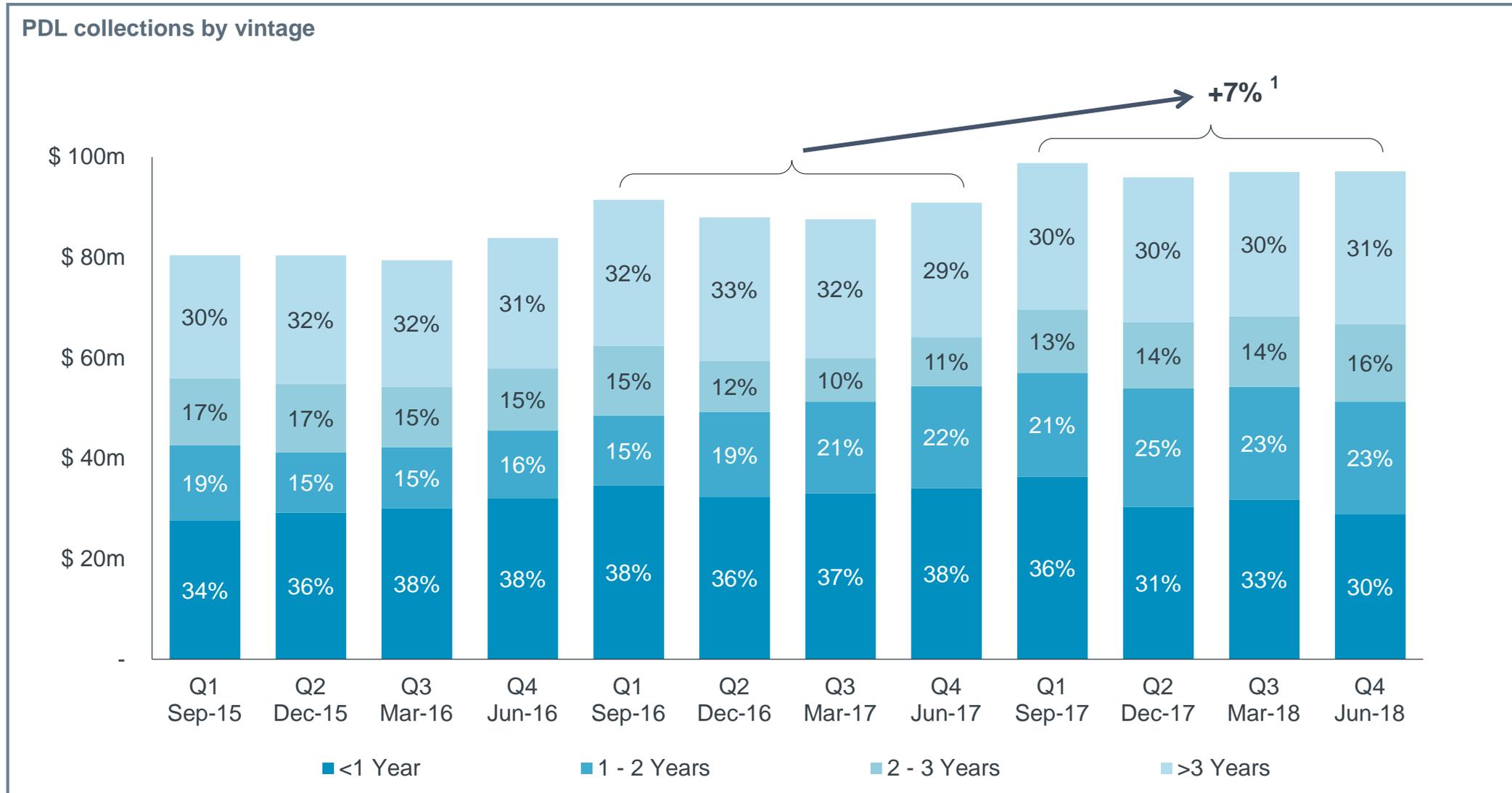
Operating cash flows and gearing				
	Jun-18	Dec-17	Jun-17	Dec-16
Pre-tax operating cash flow	\$155.0m	\$150.0m	\$139.6m	\$134.5m
Tax payments	(\$16.8m)	(\$15.8m)	(\$9.3m)	(\$1.4m)
PDL acquisitions, net lending and capex	(\$114.1m)	(\$135.8m)	(\$122.0m)	(\$179.9m)
<b>Net operating (free) cash flow</b>	<b>\$24.1m</b>	<b>(\$1.6m)</b>	<b>\$8.3m</b>	<b>(\$46.8m)</b>
PDL carrying value	\$364.1m	\$361.5m	\$338.4m	\$314.5m
Consumer loans net carrying value	\$148.9m	\$139.8m	\$130.9m	\$125.9m
Net borrowings	\$211.9m	\$219.9m	\$203.5m	\$200.5m
<b>Net borrowings / carrying value (%)</b>	<b>41.3%</b>	<b>43.9%</b>	<b>43.4%</b>	<b>45.5%</b>

## Appendix 2 | Pricing discipline and accuracy

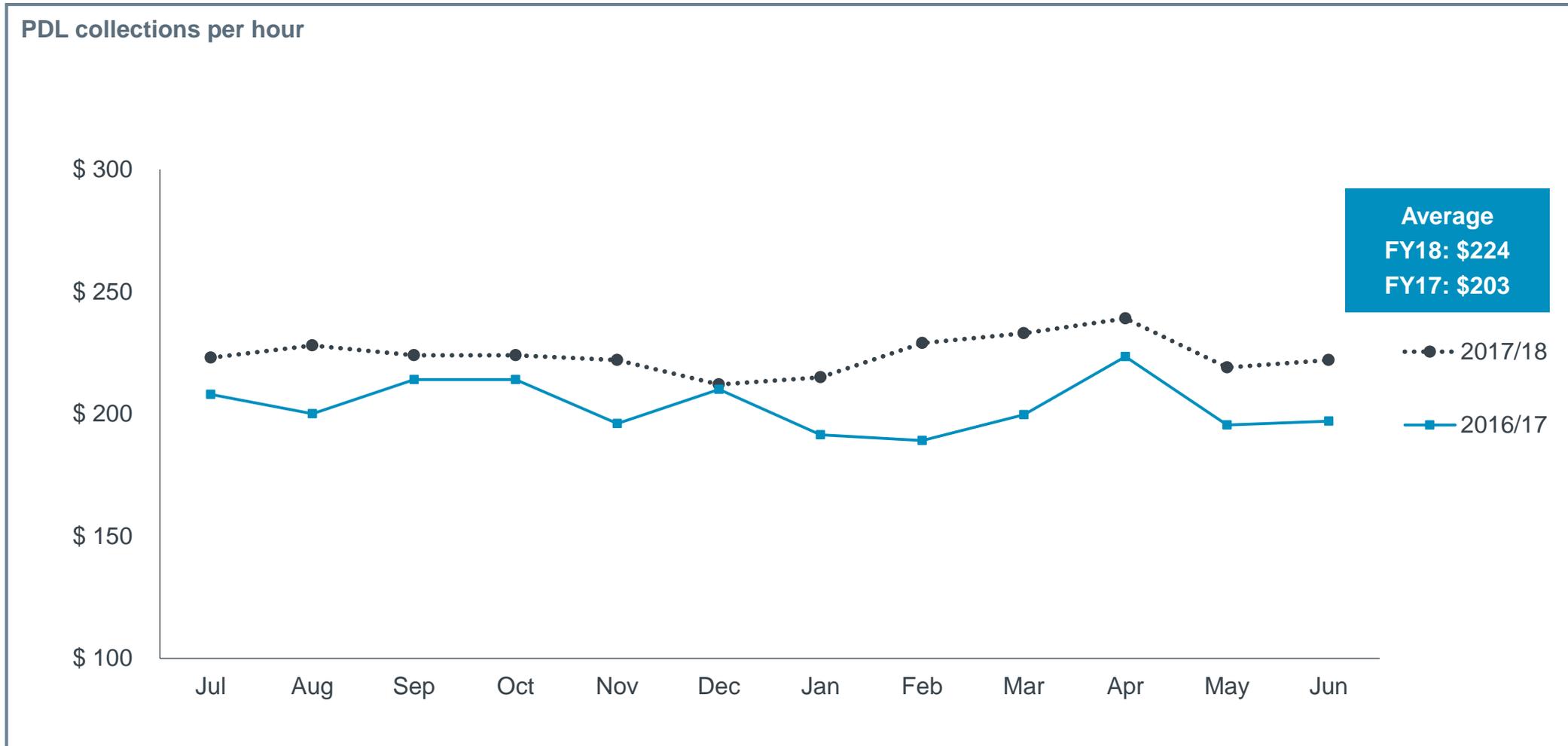


\* For all PDLs held at June 2008, initial projections represent the forecast at June 2008

# Appendix 3 | Collections life cycle



1. 7% growth in FY18 vs. FY17

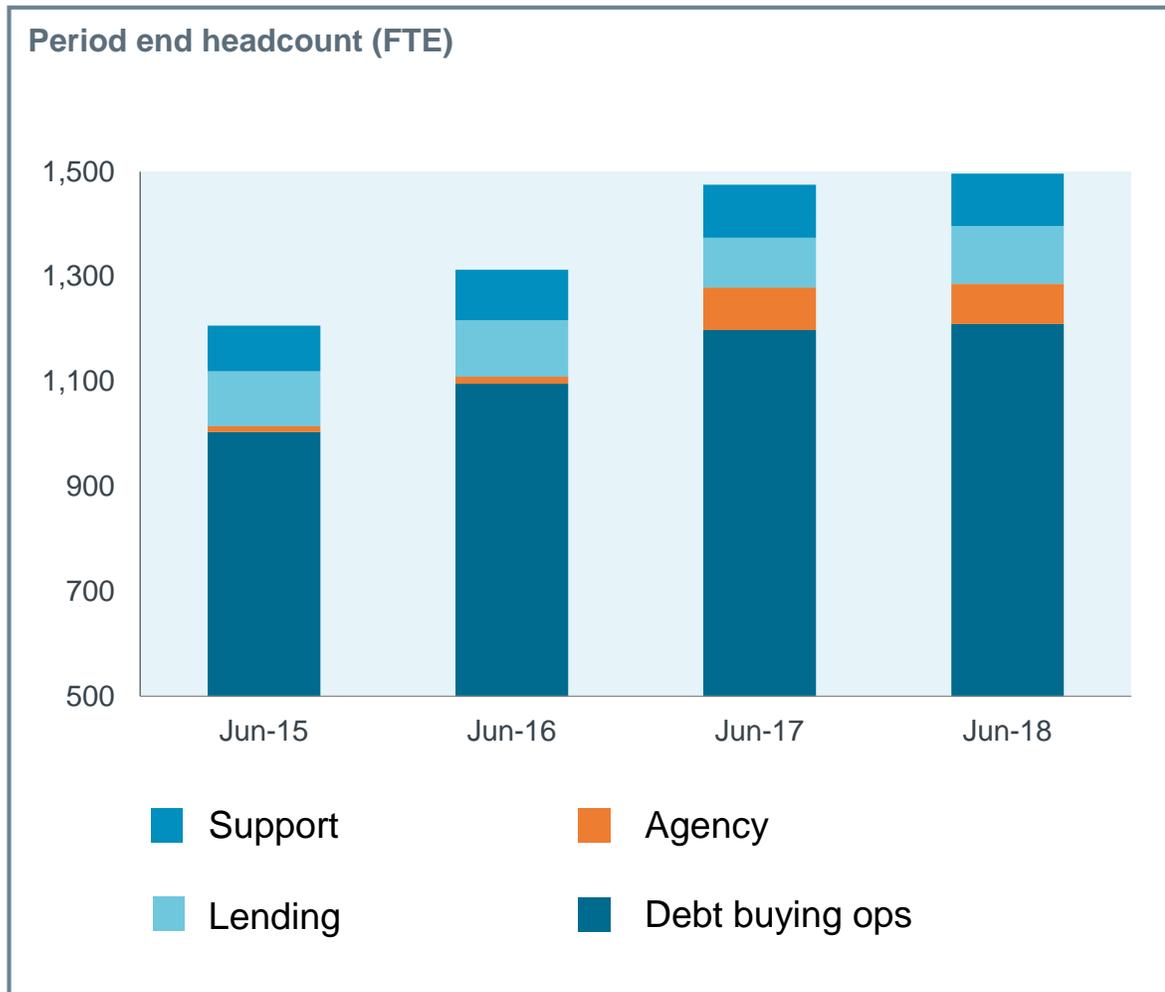


### Portfolio summary

<b>Total portfolio</b>	<b>Jun 16</b>	<b>Dec 16</b>	<b>Jun 17</b>	<b>Dec 17</b>	<b>Jun 18</b>
Face value	\$5.3bn	\$5.7bn	\$5.8bn	\$5.9bn	\$6.0bn
Number of accounts	673,000	699,000	716,000	710,000	710,000
<b>Payment arrangements</b>					
Face value	\$1,171m	\$1,235m	\$1,300m	\$1,300m	\$1,300m
Number of accounts	147,000	151,000	157,000	153,000	157,000
<b>% of PDL collections</b>	<b>78%</b>	<b>77%</b>	<b>80%</b>	<b>78%</b>	<b>81%</b>

Aus/NZ debt buying only

## Appendix 6 | Operational and total headcount



Period end headcount (FTE)

	Jun 15	Jun 16	Jun 17	Jun 18
Debt buying operations	1,004	1,096	1,198	1,208
Agency	11	13	81*	77
Lending	104	108	95	110
Support	88	96	101	102
<b>Total</b>	<b>1,207</b>	<b>1,313</b>	<b>1,475</b>	<b>1,497</b>
Support %	7%	7%	7%	7%

\* Reflects NCML acquisition in September 2016