



Credit Corp Group

# **FY18 Market Update**

## **18 April 2018**

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# Leadership in the credit impaired consumer segment...

ANALYTICS & DISCIPLINE	OPERATIONAL EXCELLENCE	SUSTAINABILITY & COMPLIANCE	<ul style="list-style-type: none"> <li>• Long-term growth</li> <li>• ROE 16% - 18%</li> <li>• Low gearing</li> </ul>
<b>Core Australian / NZ debt buying</b>			
<ul style="list-style-type: none"> <li>• Largest database</li> <li>• History of pricing accuracy</li> </ul>	<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>	
<b>Australian / NZ lending</b>			
<ul style="list-style-type: none"> <li>• Leverage knowledge of consumer</li> <li>• Up-front loss provisioning</li> <li>• Analytical monitoring</li> </ul>	<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>	
<b>USA debt buying</b>			
<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 20% 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>	

1. YTD Mar-18 annualised ratio of cash collections from PDLs to average PDL carrying value of 1.1x

2. YTD Mar-18 ratio of cash costs of the Debt Ledger Purchasing segment to collections of 36%



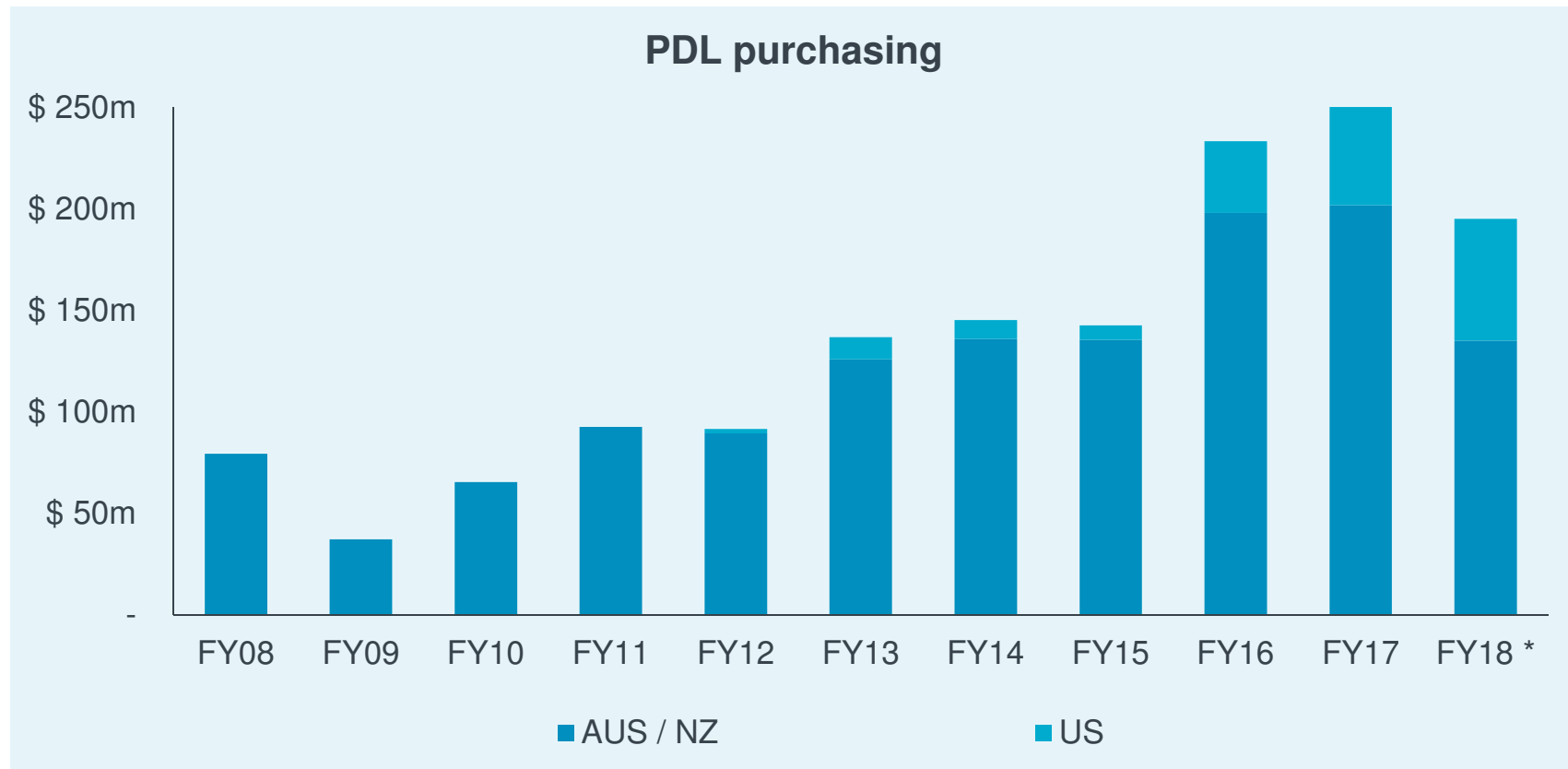
## ...has positioned Credit Corp for growth, returns and opportunity

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- **Discipline and diversification for profitable growth**
  - Reduced core business purchasing to preserve returns
  - Increased US purchasing to exploit favourable conditions
  - Continued loan book growth
- **Operational excellence for long-term advantage**
  - Ability to grow core business collections and earnings despite reduced purchasing
  - Profitable US operations with sustained productivity improvement
  - Unrivalled efficiency underpins the cheapest loan offering in the segment
- **Sustainability and compliance will be the keys to opportunity should financial services scrutiny translate to a 'flight to safety' and create further gaps in the lending market**
  - Debt purchasing business differentiated on compliance record, hardship response and reputation
  - Lending business maintains the most sustainable product in the segment

## Record of disciplined Purchased Debt Ledger (PDL) investment

- Preparedness to cede market share but not returns
  - Additional competitor capital has made some AUS / NZ market pricing unattractive
  - Record of varying purchasing in response to pricing
- Increased component of US purchasing



\* Mid-point of re-confirmed Jan-18 purchasing guidance

## US purchasing reflects favourable returns and opportunity

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- Purchasing conditions remain favourable
  - Strong credit growth
    - Record high revolving card balance <sup>1</sup>
    - Revolving card balance outstanding grew 6% in 2017 <sup>1</sup>
  - Charge-off rates continue to increase, from 3.46% (Q1 2017) to 3.61% (Q4 2017) <sup>2</sup>
- Potential for growth on existing forward flows
  - Credit Corp taking the least volume on 3 of its 4 present forward flows
- In the final stages of on-boarding with another major seller

1. "Consumer credit outstanding", US Federal Reserve, <https://www.federalreserve.gov/releases/g19/current/default.htm>

2. "Charge-off and delinquency rates on loans and leases at commercial banks", US Federal Reserve, <https://www.federalreserve.gov/releases/chargeoff/chgallsa.htm>

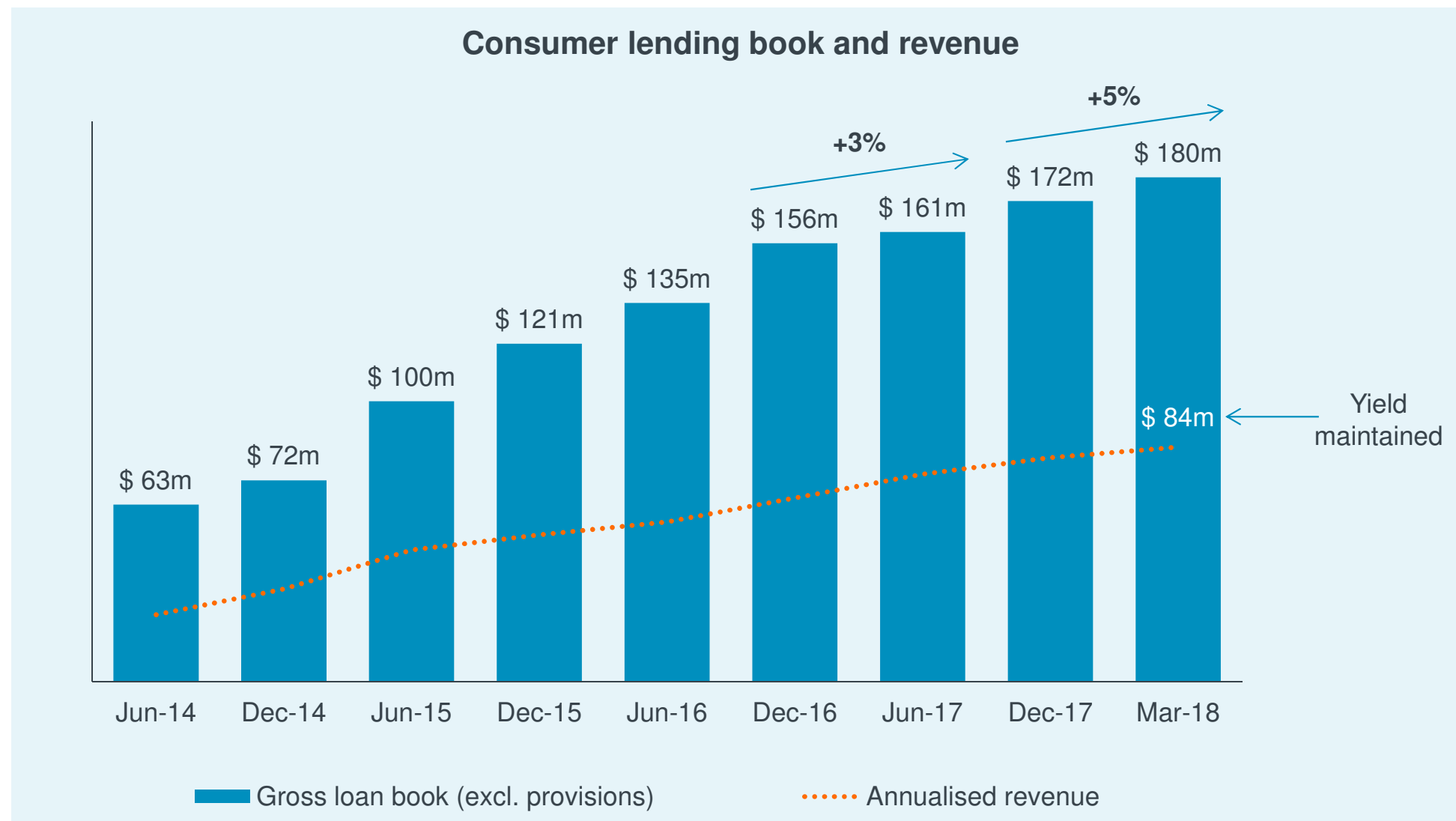
## US capacity scaling up to accommodate increased purchasing

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- New site in Salt Lake City secured near present site
  - Allows for 400 seats
  - Move will occur during June
- Headcount is currently 214 which represents near full capacity at the present site

## Continued loan book growth

- Strong second half to date



# Strong debt purchasing operational performance

## Pricing accuracy and returns on track

- Total cumulative collections above aggregate pricing expectations
- Total collections up 7% over the pcg (YTD March)
- Core AUS / NZ collections up 4% (YTD March) despite reduced purchasing

*(Refer to Appendix 1 and 2)*

## Efficiency

- Productivity up by 10% over the pcg (YTD March)

*(Refer to Appendix 3)*

## Arrangement book growth

- Face value of accounts under arrangement was a record \$1.3bn at Mar-18
- Payments under arrangement represent 78% of collections

*(Refer to Appendix 4)*

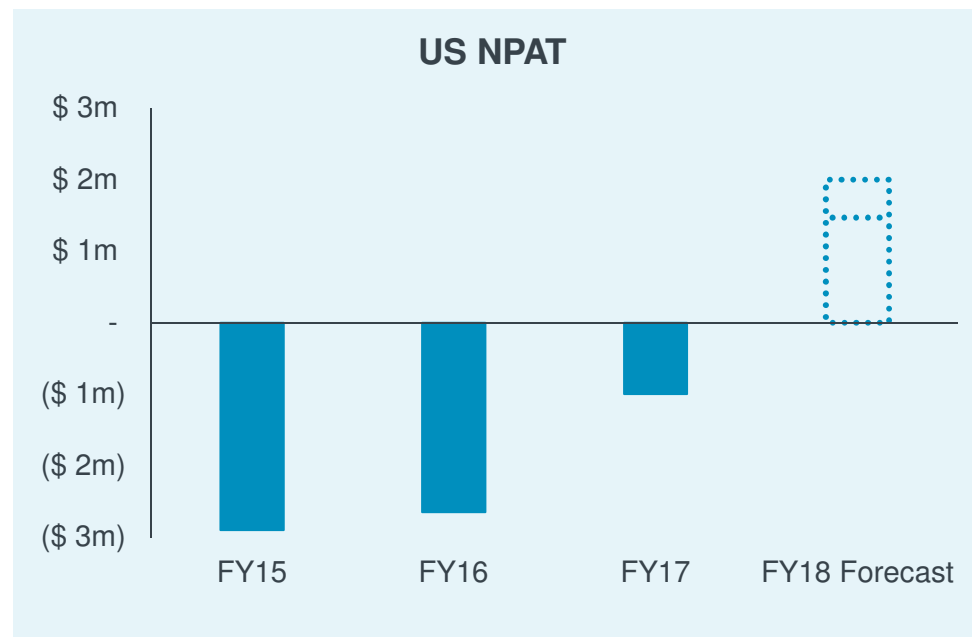
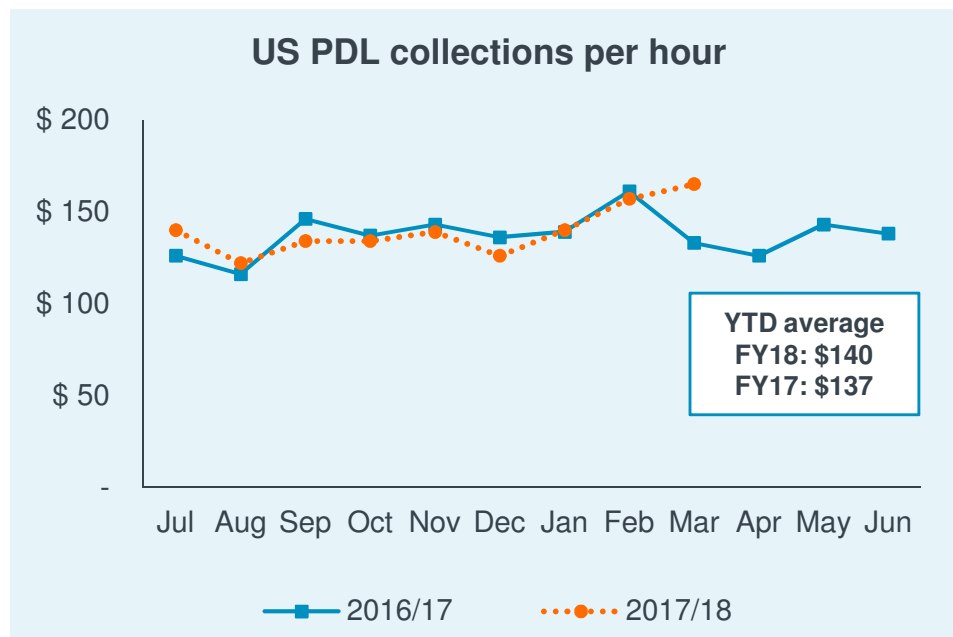
## Continuous improvement focus

- Benefitting from new and enhanced technology
  - Increased utilisation of customer portal
  - Automation of customer location activity
  - Ongoing workflow optimisation



## US productivity and earnings on track

- Productivity maintained despite a near 20% increase in headcount in FY18
- Significant investment in legal channel has grown legal collections and the litigation pipeline
- US operation has been profitable for over 12 months



## Unrivalled lending economics and consumer proposition...

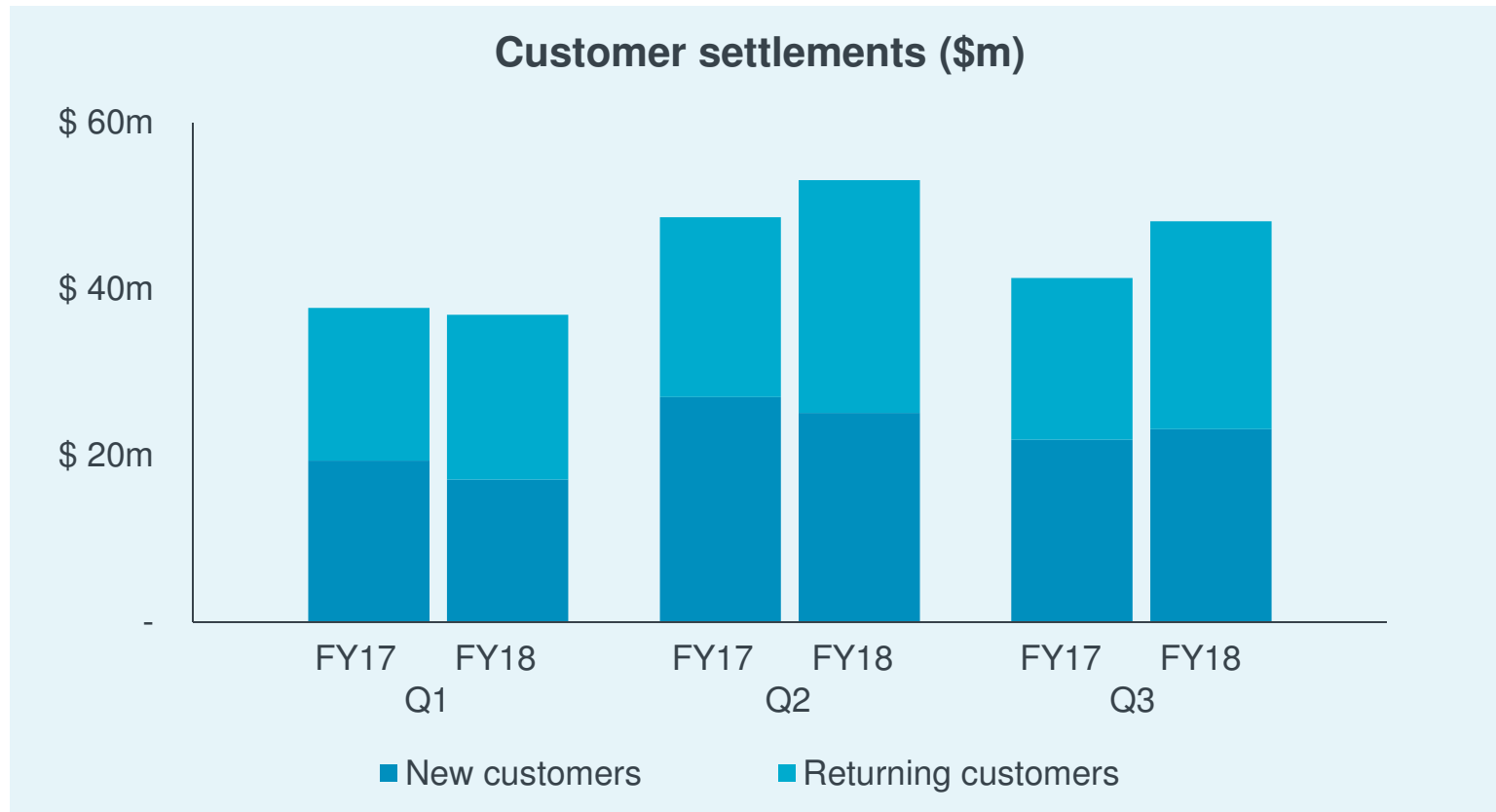
- Cheapest and most sustainable offering in the segment

Loan feature	Credit Corp Wallet Wizard loan	Typical cash loan competitor
Price <sup>1</sup>	\$148	\$440
Loan amount	Up to \$5k	Up to \$2k
Duration	Up to 3 years	<12 months

- On track to achieve target Return on Asset (ROA) of 12%

1. Total interest and fees based on a \$1,000 loan over a 6-month duration

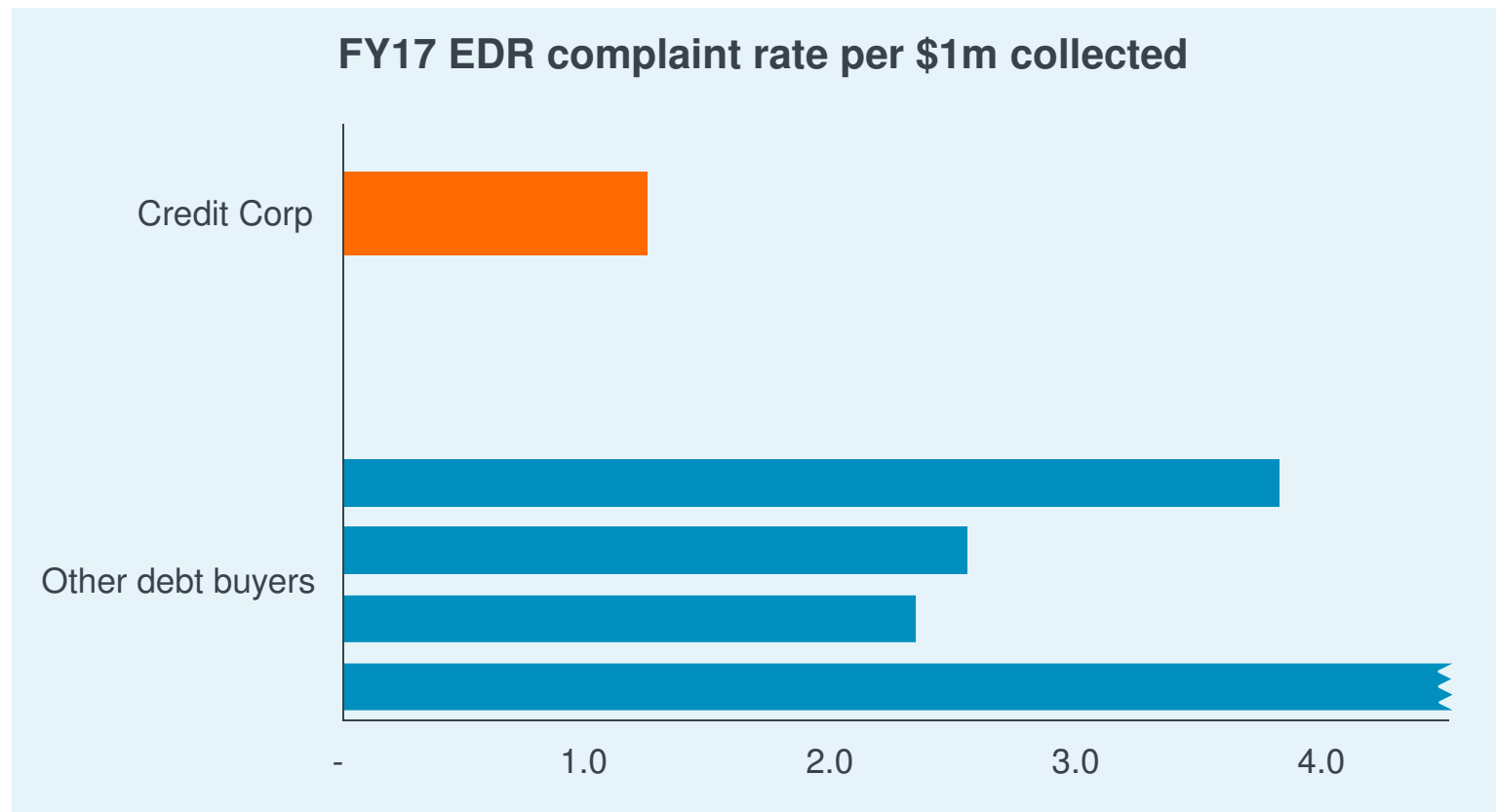
...is translating to strong customer acquisition and retention





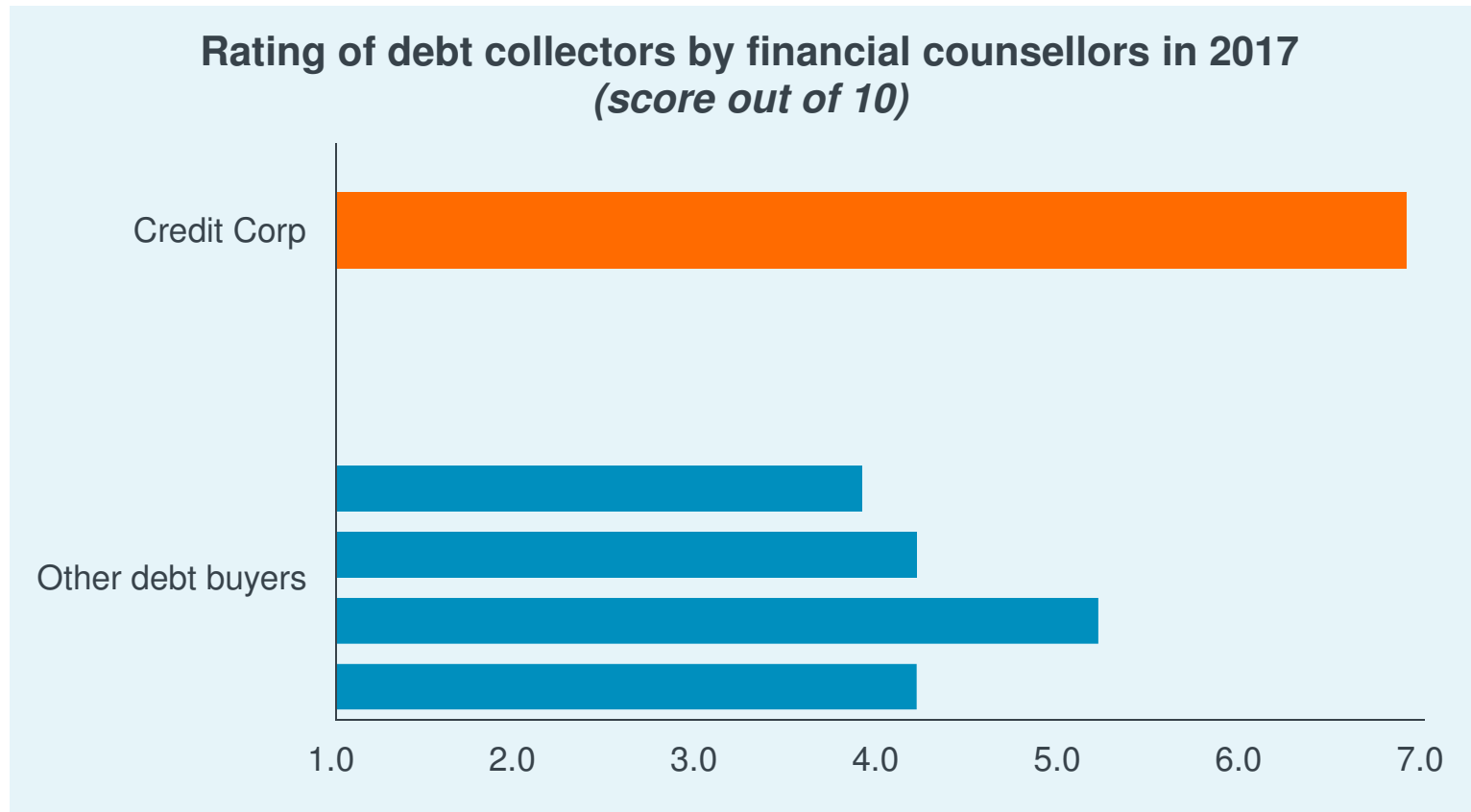
## CCP debt purchasing is heavily differentiated on compliance,...

- Impeccable 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



## ...is viewed favourably by external stakeholders...

- Clear leader in recent survey conducted by Financial Counselling Australia <sup>1</sup>



1. 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)

## ...and this approach is also reflected in lending operations

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- Pricing below the general interest rate cap
- Not using any concessional caps
  - No Small Amount Credit Contracts (SACCs)
  - No Medium Amount Credit Contracts (MACCs)
  - No Consumer Leases
- No 'junk insurance'
- No 'flex commissions'
- Strong responsible lending regime
  - Systems ensure consistent execution
  - No third party underwriting
    - All credit assessment and verification undertaken in-house

## FY18 Guidance confirmed

	Updated guidance Jan 2018	Reconfirmed guidance Apr 2018
<b>PDL acquisitions</b>	\$190 - \$200m	<b>\$190 - \$200m</b>
<b>Net lending</b>	\$35 - \$45m	<b>\$35 - \$45m</b>
<b>NPAT</b>	\$62 - \$64m	<b>\$62 - \$64m</b>
<i><b>AUS / NZ debt buying</b></i>	<i>\$45 - \$46m</i>	<i>\$45 - \$46m</i>
<i><b>AUS / NZ lending</b></i>	<i>\$16m</i>	<i>\$16m</i>
<i><b>US debt buying</b></i>	<i>\$1 - \$2m</i>	<i>\$1 - \$2m</i>
<b>EPS (basic)</b>	130 - 134 cents	<b>130 - 134 cents</b>

# Questions

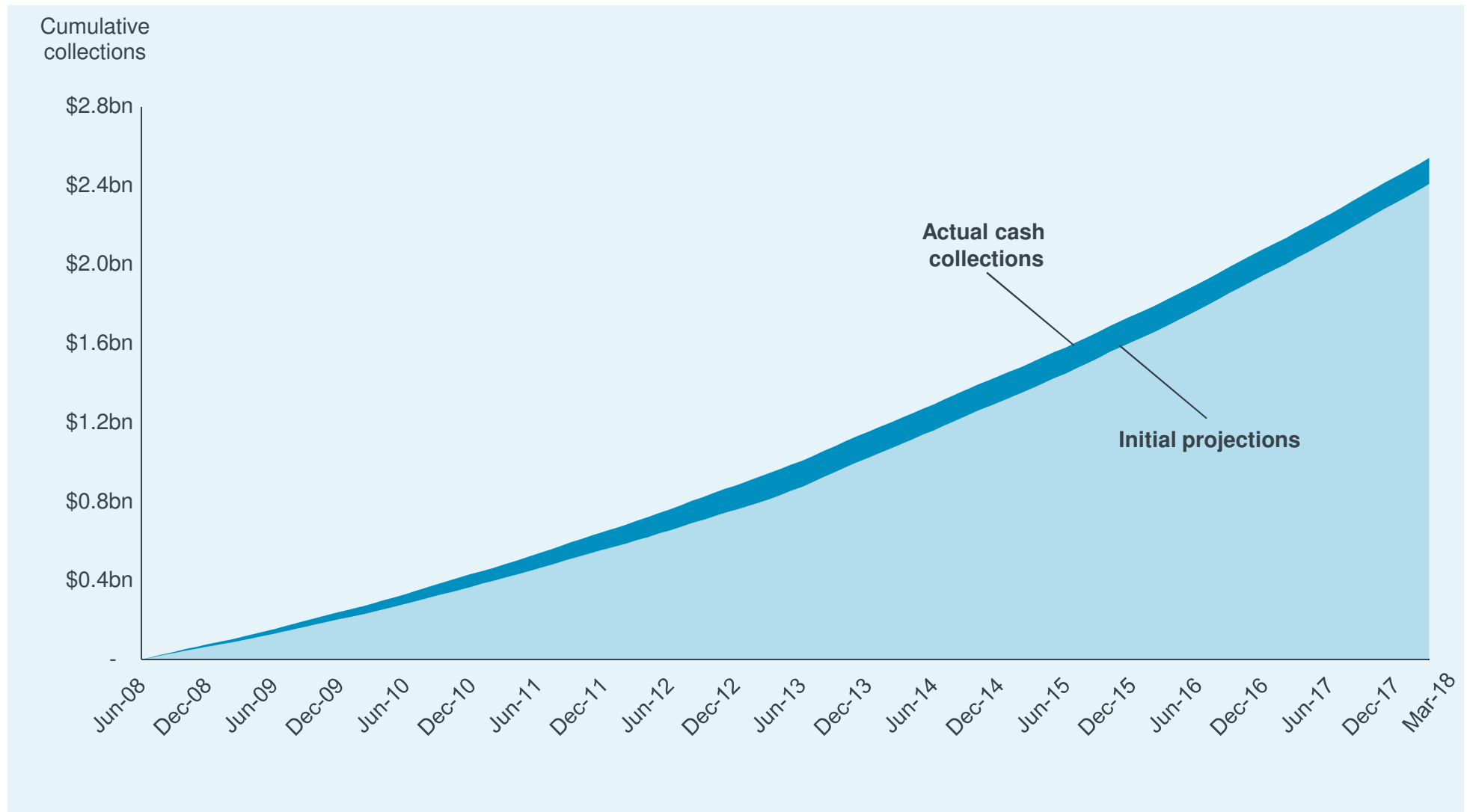


## Appendix - Key operating metrics

## Appendix 1 | Operational metrics - pricing discipline and accuracy

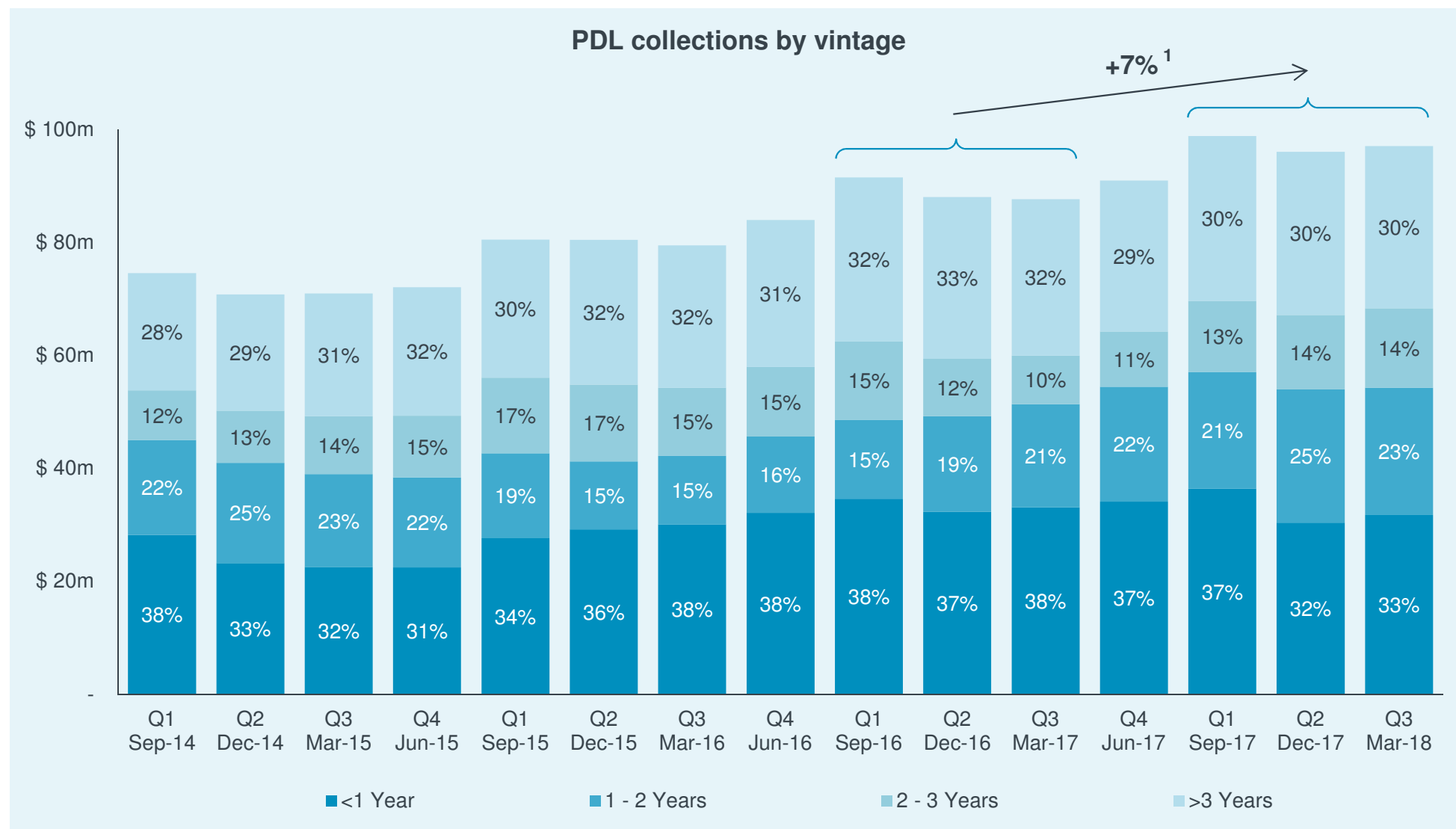


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\* For all PDLs held at June 2008, initial projections represent the forecast at June 2008

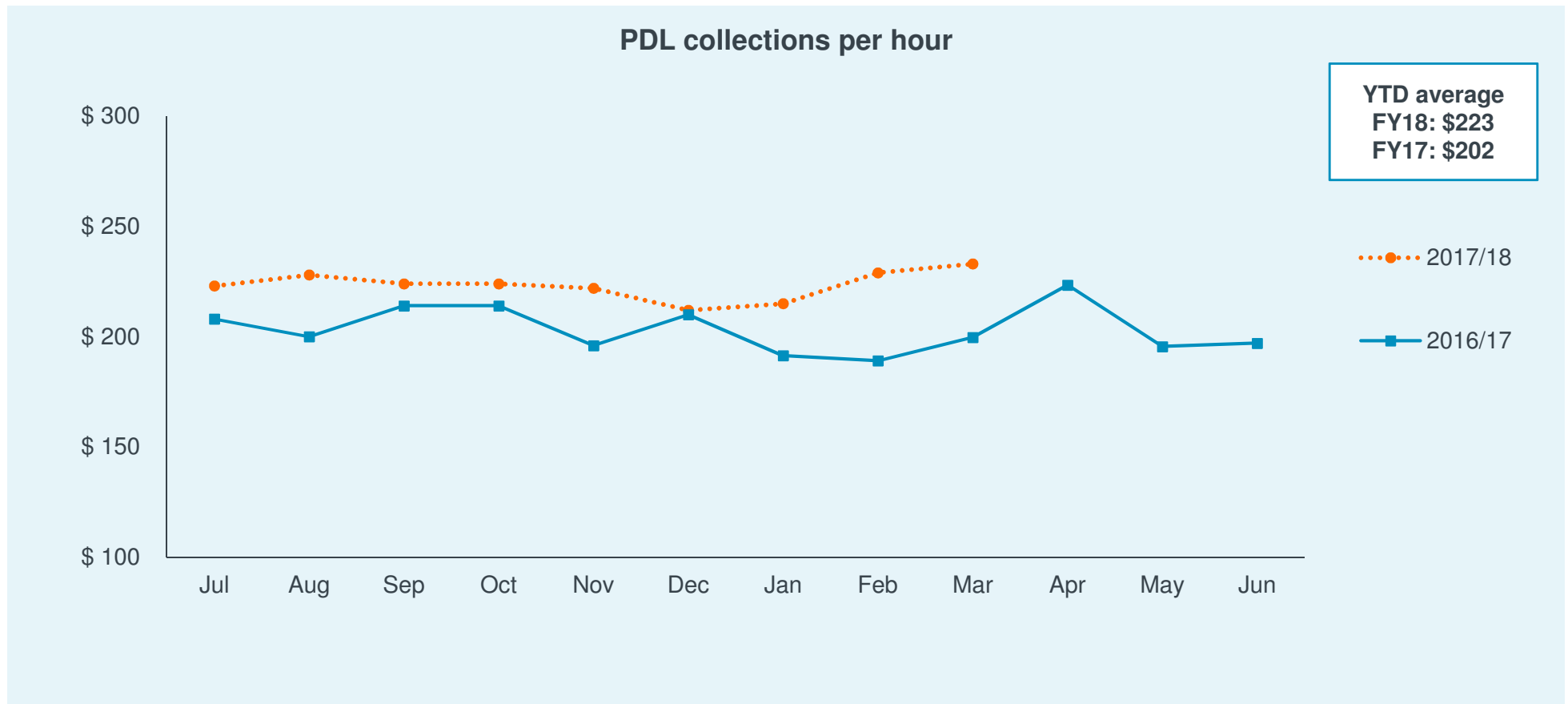
## Appendix 2 | Operational metrics - collection life-cycle



1. 7% growth on pcp (Q1-Q3 FY18 vs. Q1-Q3 FY17)

## Appendix 3 | Operational metrics - productivity

### Debt purchase productivity (direct collection staff only)



## Appendix 4 | Operational metrics - payers base

Total portfolio	Jun 16	Dec 16	Jun 17	Dec 17	Mar 18
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
Payment arrangements					
Face value	\$1,171m	\$1,235m	\$1,300m	\$1,300m	\$1,300m
Number of accounts	147,000	151,000	157,000	153,000	153,000
<b>% of PDL collections</b>	<b>78%</b>	<b>77%</b>	<b>80%</b>	<b>78%</b>	<b>78%</b>