



Scottish Pacific Group Limited

1H17 Results Presentation

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BUSINESS FINANCE

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Agenda

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- 2 Financial Performance
- 3 Strategy & Outlook
- 4 Q&A
- 5 Appendices

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1H17 Highlights



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1H17 Highlights

Pro Forma¹ Financial Results & Dividend

- **Net Revenue \$49.9m, up 5%**
- **PBIT \$21.2m, up 16.5%**
- **NPATA \$15.9m, up 34.7%**
- **PBIT Margin 42.5% up 450bps**
- **Underlying EPS² 11.4cps**
- **Interim dividend 8.0 cps (fully franked), 70% payout ratio**

Comments

- **Strong growth in PBIT (up 16.5%) and NPATA (up 34.7%), despite more modest growth in Net Revenue**
- **Net Revenue performance impacted by weaker than expected first 4 months:**
 - **Lower levels of client borrowing (particularly amongst some larger clients) with weaker Sept Qtr GDP a factor**
 - **Higher than expected levels of client attrition, in part due to application of Scottish Pacific credit policies on acquired portfolios during integration**
- **Underlying average exposure growth (excluding Suncorp and GE) grew 9.5% in December 2016 compared to December 2015**

**FY2017 guidance provided in November 2016 Trading Update reaffirmed:
Net Revenue of \$100.9m, PBIT of \$40.7m, NPATA of \$30.8m**

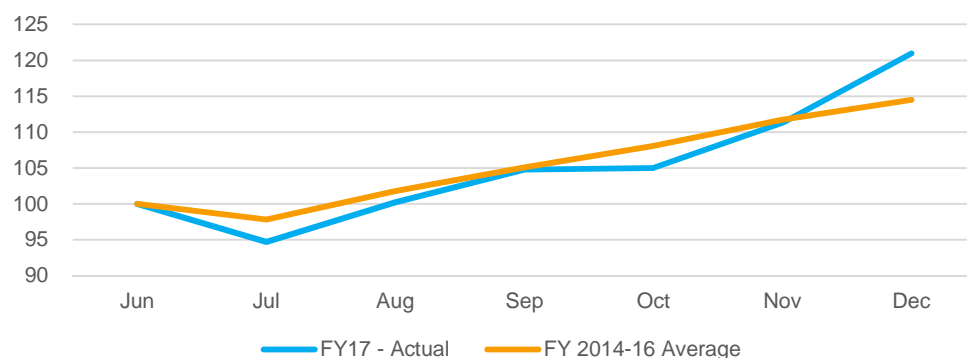
¹ Pro Forma adjustments to the statutory results primarily reflect costs incurred in the period associated with Scottish Pacific's initial public offer and are consistent with the IPO prospectus. Growth rates are to 1H16 Pro Forma financials include the impact of the acquisition of Bibby Financial Services but excludes the client portfolios acquired from Suncorp and GE

² Underlying EPS based on NPATA and total issued shares of 139.2m

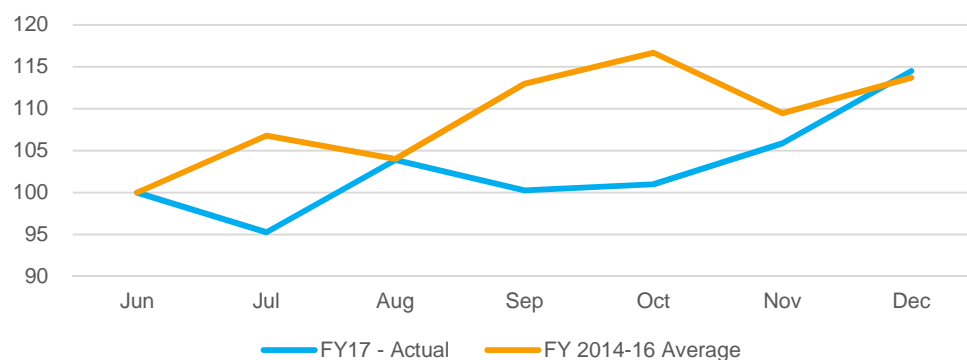
Volume Growth

Solid recovery in exposure growth relative to historical trends, underpinning confidence in achieving FY2017 guidance

Cumulative Month on Month Average Exposure Growth for Dec Half ¹



Cumulative Month on Month Net Revenue Growth for Dec Half ¹



¹ Cumulative growth rates calculated from illustrative common base starting point of 100 in June.
FY2014-16 Averages exclude Suncorp and GE portfolios

Comments

- **Weaker economic conditions in September quarter contributed to a slow down in volume growth**
- **Tougher first quarter of FY17 resulted in increased focus on our core operating principles**
 - **Maintain focus on new business and growing new products**
 - **Continue commitment to prudent risk management**
 - **Do not sacrifice risk for income**
- **Enquiry levels up across all distribution channels, confirming demand**
- **Bad debt provisions at historically low levels**
- **Increasing average client size supporting volume growth**
- **Need to make it operationally easier for clients to borrow – review being carried out**

Operational Review

Risk Management	<ul style="list-style-type: none"> ▪ Conservative approach to lending in 1H17, specifically on acquired portfolios resulting in some forced client attrition, but improvement in overall book quality ▪ Additional investment in credit staff, monitoring and systems including technology, assisting credit management
Clients	<ul style="list-style-type: none"> ▪ Expected higher attrition of acquired clients to slow now integration is successfully completed ▪ Average client exposure from \$0.524m in July 2016 to \$0.642m in December 2016 assisting in book growth
Distribution	<ul style="list-style-type: none"> ▪ New business enquiries up 70% on 2HFY16 ▪ Referral arrangements with major Australian banks starting to perform, additional investment made in sales staff to service this channel
Products	<ul style="list-style-type: none"> ▪ Instigated on line early credit assessment to make Selective Invoice Finance easier to settle. Net Revenue growth over 150% from December 2015 to December 2016 ▪ Expanded the Bad Debt Protection offering to the broader group, not just Bibby. Employed a dedicated sales person and invested in IT ▪ Progress Claim Finance portfolio acquired via Bibby was initially wound back while more conservative credit criteria were implemented, portfolio growth resuming now
Staff	<ul style="list-style-type: none"> ▪ Staff turnover now below national average and pre-acquisition levels ▪ CFO and COO roles separated to accelerate business improvement and delivery of new products
Integration	<ul style="list-style-type: none"> ▪ Expected synergies from acquisition fully realised

2 Financial Performance

Financial Summary

A\$ millions	1H17 (pro forma) ¹	1H16 (pro forma) ²	Change
Net Revenue	49.9	47.5	5.1%
Total Expenses	(28.7)	(29.3)	(2.0%)
PBIT	21.2	18.2	16.5%
NPAT	13.0	11.8	10.2%
NPATA	15.9	11.8	34.7%
Key Metrics			
Turnover (A\$m)	7,724.0	5,359.5	44.1%
Average Exposure (A\$m)	845.9	633.2	33.6%
Bad debt expense / average exposure (%)	(0.02%)	0.17%	19bps
PBIT Margin (%)	42.5%	38.0%	450bps

- **Net Revenue for 2HFY17 expected to improve on 1HFY17 based on current trading**
- **Turnover and average exposure growth reflect first time contribution from Suncorp and GE portfolios**
- **Expenses and PBIT margin assisted by positive bad debt expense**

¹ Pro Forma adjustments to the statutory results primarily reflect costs incurred in the period associated with Scottish Pacific's initial public offer and are consistent with the IPO prospectus.

² 1H16 Pro Forma financials include the impact of the acquisition of Bibby Financial Services but excludes the client portfolios acquired from Suncorp and GE

Revenue

A\$ millions	1H17 (pro forma) ¹	1H16 (pro forma) ²	Change
Management Fees – Debtor Finance	31.5	30.7	2.6%
Management Fees – Trade Finance	2.7	2.2	22.7%
Net Interest Income	15.7	14.6	7.5%
Net Revenue	49.9	47.5	5.1%
Key Metrics			
Average Management Fee	0.41%	0.57%	(16bps)
Average Exposure (A\$m)	845.9	633.2	33.6%
Net Interest Income / Average Exposure	3.71%	4.65%	(94bps)
Net Revenue Margin	11.8%	15.0%	(320bps)

- Modest growth in management fees, interest income and net revenue resulting from weak initial operating environment
- Net Interest Margin and Management Fee Margin in line with expectations at time of IPO
 - Reduction from 1H16 reflecting introduction of lower margin, larger clients in acquired Suncorp and GE portfolio

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Expenses

A\$ millions	1H17 (pro forma) ¹	1H16 (pro forma) ²	Change
Staff Expenses	16.9	18.4	(8.1%)
Office & Administration Expenses	8.1	8.2	(1.2%)
Marketing & Advertising Expenses	0.6	1.0	(40.0%)
Bad Debt Expense	(0.2)	1.1	(118.2%)
Depreciation & Amortisation	3.3	0.6	450%
Total Expenses	28.7	29.3	(2.0%)
Key Metrics			
Opex (excl D&A)/Net Revenue	50.9%	60.5%	960bps
Staff expenses/Net Revenue	33.8%	38.7%	490bps
Bad debts expense/Average exposure	(0.02%)	0.17%	19bps

■ Staff Expenses

- Staff levels now normalised

■ Office & Administration Expenses

- In-line with prior year

■ Marketing & Advertising Expenses

- Planned expenditure weighted toward 2nd Half of FY17

■ Bad Debt Expense

- General provision based off size of loan book - no change in accounting policy
- Specific bad debts have been extraordinarily good, as have recoveries – not expected to be repeated in 2H17

■ Depreciation & Amortisation

- Amortisation of customer lists commenced in 2HFY16

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Segment Performance - Debtor Finance

A\$ millions	1H17 (pro forma) ¹	1H16 (pro forma) ²	Change
- Management Fees	31.5	30.8	2.3%
- Net Interest Income	16.0	14.7	8.8%
Net Revenue	47.5	45.5	4.4%
Total Expenses	(27.1)	(27.6)	(1.8%)
PBIT	20.4	17.9	13.9%
Key Metrics			
Turnover (A\$m)	7,724	5,340	44.6%
Average Exposure (A\$m)	833.4	627.1	32.9%
Average Management Fees	0.41% ^s	0.58%	17bps
Net Interest Income / Average Exposure (%)	3.84%	4.70%	86bps
Bad debt expense / average exposure (%)	(0.04%)	0.11%	15bps
PBIT Margin (%)	42.9%	39.2%	370bps

- Increased turnover reflects full six months contribution from acquired GE & Suncorp portfolios
- Lower net interest margin and management fees resulting from lower margin, large clients in acquired GE and Suncorp portfolios
- Lower than anticipated volumes through soft first quarter, compounding the expected outcomes from Scottish Pacific credit policies being applied to the acquired books
- Positive bad debt expense arising from strong performance on specific provisions

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Segment Performance - Trade Finance

A\$ millions	1H17 (pro forma) ¹	1H16 (pro forma) ²	Change
- Management Fees	2.7	2.2	22.7%
- Net Interest Income	(0.3)	(0.2)	(50%)
Net Revenue	2.5	2.0	20.0%
Total Expenses	(1.6)	(1.6)	(5.8%)
PBIT	0.9	0.4	166%
Key Metrics			
Turnover (A\$m)	58.5	39.0	50.0%
Average Exposure (A\$m)	13.5	5.6	141.0%
Average Management Fees	9.2%	11.2%	200bps
Bad debt expense / average exposure (%)	.024%	0.013%	1bps
PBIT Margin (%)	33.3%	15.0%	18.3ppt

- Increased business derived from Trade UK and Export business lines
- Margin decrease arising from growth in lower margin UK and export product compared to Tradeline
- Completed acquisition of a small UK trade finance business, Sterling Trade Finance, in January 2017
 - Purchase consideration of £0.7m, loan book of ~£1.2m
 - Allows us to meet the demand seen since opening up in the UK in March 2015, with a more extensive product suite, including debtor finance
 - Small contribution to FY17 earnings

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Balance Sheet, Debt & Funding

- **Corporate debt \$59m as 31 December 2016 (less capitalised borrowing costs), undrawn facility of \$11.0m**
- **Total warehousing funding facility remains at \$1,195m, \$337m unused as at 31 December 2016**
- **Gross receivables at 31 December 2016 of \$1,746.7m before provisions for impairment, an LVR of 48.4%**

Actual – 31 December 2016 A\$ millions	Statutory (including limited recourse Funding Vehicles	Impact of excluding limited recourse Funding Vehicles	Pro forma excluding limited recourse Funding Vehicles
Assets			
Cash & cash equivalents	10.6		10.6
Restricted cash	60.0	(60.0)	-
Client receivables (net)	878.5	(865.7)	12.8
Other debtors and prepayments	3.8		3.8
Deferred tax assets	9.3		9.3
Investments	-	73.6	73.6
Property, plant & equipment	2.1		2.1
Goodwill & intangible assets	159.8		159.8
Total Assets	1,123.9	(852.1)	271.8
Liabilities			
Trade & other payables	17.7	6.3	24.0
Current tax payable	(3.2)		(3.2)
Loans & borrowings	913.0	(858.3)	54.6
Total Liabilities	927.7	(852.1)	75.4
Net Assets	196.4		196.4
Equity			
Share capital	207.0		207.0
Reserves	1.1		1.1
Retained earnings	(11.7)		(11.7)
Total Equity	196.4		196.4

Dividend

- **Directors declared inaugural interim dividend of 8.0 cents per share, fully franked**
- **Represents a payout ratio of 70% of NPATA compared to target payout ratio range of 60-80% of NPATA**
- **Directors currently expect that a similar payout ratio will apply to the final FY17 dividend**
- **Dividend dates**
 - **Shares trade ex-dividend: 7 March 2017**
 - **Record date: 8 March 2017**
 - **Payment date: 22 March 2017**

6 Strategy & Outlook

Growth Strategy

Scottish Pacific remains well positioned to grow core exposure and revenue by leveraging its scale to serve the working capital needs of SMEs

1	Broadening client segments	<ul style="list-style-type: none">▪ Larger Balance Sheet allows us to target larger clients▪ Continuing focus on product innovation▪ Ability to transition clients between invoice discounting and debtor finance provides enhanced risk management
2	Enhanced direct origination capability	<ul style="list-style-type: none">▪ Increasing enquiry levels▪ Improved conversion rates▪ 1H17 direct originations in excess of 20% of total originations, with medium-term target of 30%
3	Leveraging referral agreements	<ul style="list-style-type: none">▪ Recruiting additional sales staff to leverage existing referral arrangements and target potential new referral partners
4	Expanding product offering	<ul style="list-style-type: none">▪ Scale provides increased ability to develop and fund new products to meet broader range of client needs▪ Selective Invoice Finance, Bad Debt Protection and Progress Claim Finance expected to make increasing contribution▪ Improved offering in the UK with the acquisition of Sterling Trade Finance

Outlook

- **Client activity and borrowing has recovered since 14 November 2016 Trading Update, continuing into January**
- **Strong level of new business enquiries experienced during the December half and into January**
- **Modest contribution from Sterling Trade Finance acquisition in FY17, benefits of expanded client offering to flow in FY18 and beyond**
- **Increased contribution from Progress Claim Finance, Selective Invoice Finance and Bad Debt Protection facilities**
- **Scottish Pacific reaffirms its FY17 guidance provided in its Trading Update in November 2016 of:**
 - **Net Revenue of \$100.9m**
 - **PBIT of \$40.7m**
 - **NPATA of \$30.8m**

7 Q&A

8 Appendices

Statutory Results

A\$ millions	1H17 Actual	1H16 Actual	Change
Revenue			
Management Fees	34.2	17.4	96.5%
Net Interest Income	15.7	9.8	60.2%
Net Revenue	49.9	27.2	83.4%
Expenses			
Staff Expenses	17.0	10.0	70.0%
Office & Administration Expenses	7.5	4.8	56.2%
Professional Fees	10.1	4.3	134.9%
Bad Debt Expense	(0.2)	0.4	(150%)
Depreciation & Amortisation	3.3	0.3	
Total Expenses	37.7	19.8	90.4%
PBIT	12.2	7.4	64.8%

Comments

- **1H17 Actual includes six months results for the Bibby, GE and Suncorp businesses acquired in 2HFY16**
- **Professional Fees include \$8.9m of costs incurred on listing in July 2017. These costs are removed as an adjustment to arrive at the pro-forma result reported above.**
- **Amortisation of acquired intangibles of \$2.9m was incurred in 1H17**

Statutory Results

A\$ millions	1H17 Actual	1H16 Actual	Change %
PBIT	12.2	7.4	64.8%
Borrowing Costs	2.6	2.2	18.1%
PBT	9.6	5.1	88.2%
Income Tax	1.1	1.6	(31.2%)
NPAT	8.5	3.5	142.8%
EPS (cps)	6.18	4.73	30.6%

Comments

- **Pro forma income tax expense includes \$4.5m of one off tax benefits. For remainder of FY17 and future years statutory accounting income tax rate is expected to apply.**