

# 2023 AGM Chairman's Address

10 November 2023

## Introduction

On behalf of the Board of Solvar, welcome to our 2023 Annual General Meeting.

I'd like to start by reflecting on this year's achievements and will conclude with comments regarding the outlook for FY24. Following my address, Scott Baldwin, Managing Director will give a short presentation on Solvar.

FY23 is best described as a year where we had strong accomplishments delivered in an environment of complex global macro challenges. During FY23, the Group continued growing its loan book to \$910.1m, up from \$733.4m the prior year, whilst revenue grew to \$209.3m, up from \$187.9m the prior year. Our strategy of not only growing the loan book, but also diversifying the business both from a product and geographic perspective has been the correct strategy. In addition, our distribution remained well balanced between direct and intermediated channels, which has been an important focus for the Group.

The backdrop to these results was the macro environment in which we operate. The world has become more unstable and volatile since our last AGM. As a non-bank lender, movements in interest rates have an impact on the Group's margins and the competitive environment. Whilst interest rate rises can be added to new loans written, the auto-finance lending market is typically fixed rate. This means existing loans, or the back book, do not reprice and so it takes time for new loans to become a material portion of the overall loan book. The magnitude and speed of interest rate changes, where central bank interest rates both in Australia and New Zealand materially increased in a relatively short space of time, had an adverse impact on the Group's back book margins.

The increased global volatility served to highlight the strength and resilience of our business. We have always focused on being a profitable business and not chasing growth at any price, and that continues to underpin how we grow. Q1 FY24 continued that approach with the Group delivering \$6.2m in Net Profit After Tax (NPAT) and a growing loan book which ended the quarter at \$925.7m.

Our strategic focus is on markets that are underserved. At our core, Solvar addresses consumers non-discretionary demand for finance. Whilst the make of a vehicle is discretionary, the need to have a vehicle for many, is not. Families need cars to get their

children to school, to get to work and participate in society. We operate in a market that funds \$40bn in annual lending volumes; and we are well placed with substantial headroom to increase our market share in the coming years.

In May 2023 we announced that a subsidiary of the Group, Money3, had been served proceedings filed by ASIC in the Federal Court in relation to five consumer loans written between May 2019 and February 2021. The matter is still ongoing and therefore we are unable to comment, other than to say the next scheduled Court hearing is for mid-February next year and we are of the view we have appropriate processes in place that comply with our obligations for responsible lending.

## Performance

With deteriorating trading conditions in the second half of FY23 the Group delivered on the revised FY23 guidance of \$48m statutory NPAT. This result was only possible due to the significant commitment of the wider Solvar team. The Group's loan book grew to \$910.1m, up 24.1% on pcp; new loan originations of \$535.3m up 14.6% on pcp; revenue of \$209.3m up 11.4% on pcp.

## Capital Management

The Group currently has access to around \$1.0bn in diverse wholesale funding, provided by international institutions and major banks in Australia and New Zealand. Solvar has sufficient capacity to continue growing its loan book as planned. This is reinforced by the Group's exceptionally strong balance sheet providing flexibility to capitalise on opportunities as they arise.

During FY23, the Group completed a \$15.0m share buy back and announced a total of 16.5c dividends (fully franked) per share for the financial year.

With the substantial franking credits available to the Company, the Board was determined to maximise the value of these in the hands of shareholders and therefore in April announced an increase in the maximum dividend payout ratio to 90% of NPAT.

## Operations

During FY23, we increased resources focused on compliance, governance, risk and cyber resilience. The expansion in the Group's corporate head count is a strategic investment aimed at supporting our future growth plans. These new resources will assist our efforts to

streamline operations and drive ongoing productivity improvements at business unit level.

## Outlook

The International Monetary Fund's World Economic Outlook<sup>1</sup> is forecasting advanced economies growth to slow to 1.4% in 2024 as policy tightening starts to bite, but with core inflation remaining stubbornly high and not returning to target until 2025 in most cases. Whilst the Australian market is on track for a relatively soft-landing; growth in the New Zealand market is likely to remain patchy.

The impact of the interest rate increases I referred to earlier, along with the inflationary impact on the expenses of the business results in guidance of a full year normalised NPAT of \$25-30m for FY24.

I thank my fellow Directors, our Managing Director Scott Baldwin, his management team and the staff of the Solvar Group for continuing to build the Company into a leader in the industry.

Approved for release by the Chairman of Solvar.

– ENDS –

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### ABOUT SOLVAR LIMITED (ASX: SVR)

Solvar is a market leading Consumer and Commercial finance company with over 20 years' experience in Australia and New Zealand, having funded over \$2 billion of vehicles and personal loans. Dominating the used-vehicle finance market and delivering a unique customer experience from loan application to the final loan payment the group leverages technology to provide a seamless application process from a broker, online or directly to the Group.

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<sup>1</sup> [World Economic Outlook, October 2023: Navigating Global Divergences \(imf.org\)](https://www.imf.org/publications/WorldEconomicOutlook/2023/01/World-Economic-Outlook-October-2023)