



## 1H16 FINANCIAL RESULTS

Keith John, Managing Director

Date: 22 February 2016

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## 1H16 Overview

# Who is Pioneer Credit?

**Pioneer is an Australian financial services provider, specialising in acquiring and servicing unsecured retail customer portfolios.**

These portfolios consist of people with financial obligations to Pioneer who are our customers.

A key goal at Pioneer is to help our customers progress towards financial recovery, and through this process evolve as a 'new consumer'.

In 2016 Pioneer will grow this new consumer segment through the offering of new loan and related products in an innovative and risk managed way.

## **Corporate Summary**

As at 19 February 2016

ASX Code: PNC

Shares on Issue: 45,861,333

Market Cap: \$80.3m

## **Key People**

**Keith John** Managing Director

**Leslie Crockett** Chief Financial Officer

**Lisa Stedman** Chief Operating Officer

**Tony Bird** Chief Risk Officer

**Sue Symmons** General Counsel & Company Secretary





# 1H16 Headlines

## Strong Revenue and Earnings Growth

- Net Revenue of \$21.1m up 36%
- Stat. Profit after Tax of \$3.3m up 152%
- Operating Profit after Tax up 105%
- EPS of 7.23 cps up 103%

## Strong Cash Generation

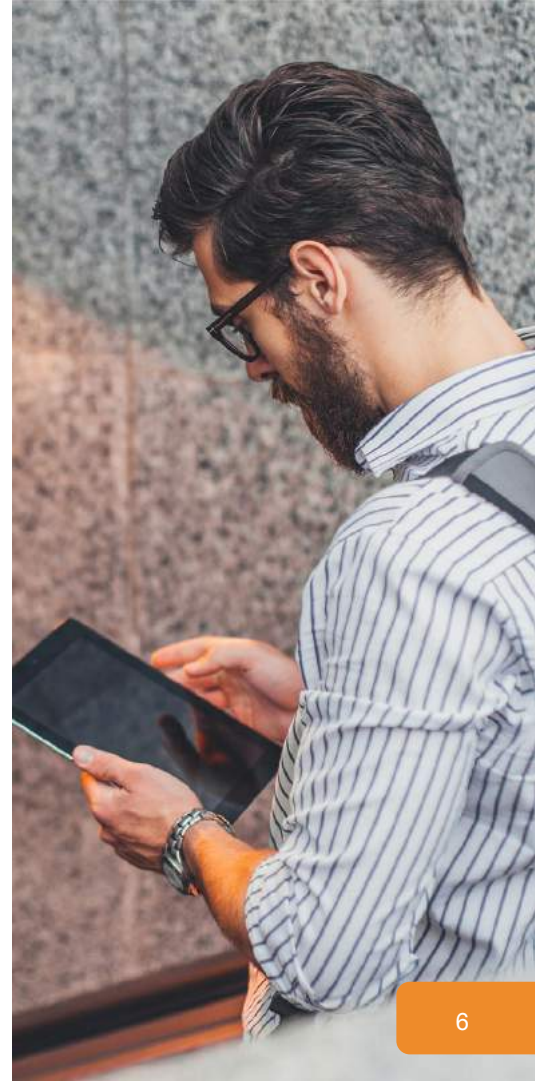
- Free Cash Flow of \$13.9m up 45%
- Funds PDP investment and evidences strong PDP liquidation

## Consistent Dividend Payout

- Interim Dividend of 3.60 cps fully franked
- ~50% Profit after Tax payout

## Targeting double digit growth in FY16

- PDP investment of at least \$42m
- EBIT margin of at least 31%
- Stat. Profit after Tax of at least \$8.8m





## Financial Highlights

# Financial Highlights: Strong Cash Generation

(A\$ millions)	Actual	
Cash Flow for Year End	1H15	1H16
<b>Gross Operating Cash Flow</b>	<b>9.6</b>	<b>13.9</b>
Working capital changes	(0.1)	(1.3)
Taxation, PP&E and Intangibles	(3.0)	(2.7)
Net Interest Paid	(0.3)	(0.7)
<b>Net Operating Cash Flow before PDP acquisition</b>	<b>6.4</b>	<b>9.2</b>
PDP acquisitions	(26.4)	(23.2)
<b>Net Cash Flow after PDP acquisition</b>	<b>(20.0)</b>	<b>(14.0)</b>
Net Proceeds from Borrowings	17.8	15.1
Dividends Paid and Treasury Shares, Net of DRP	(1.4)	(2.2)
<b>Net Cash Flow</b>	<b>(3.6)</b>	<b>(1.1)</b>

- Strong cash generation and free cash flow to enable continued disciplined investment
- Cash for PDP acquisitions
- Gearing (Net Debt/PDP) of 47.6% - below bank covenant of 55%
- \$60m debt facility with all covenants met comfortably
- Undrawn facility of \$16.3m

Key Cash Flow Metric		
Gross Operating Cash Flow / EBITDA	96%	101%



# Financial Highlights: Strong Earnings Growth

(A\$ millions)	Actual	
P&L	1H15	1H16
Net Revenue	15.5	21.1
Operating Expenses	(12.3)	(14.9)
EBITDA <sup>1</sup>	10.0	13.7
EBIT	2.6	5.5
Operating Profit before Tax	2.3	4.8
<b>Operating Profit after Tax</b>	<b>1.6</b>	<b>3.3</b>

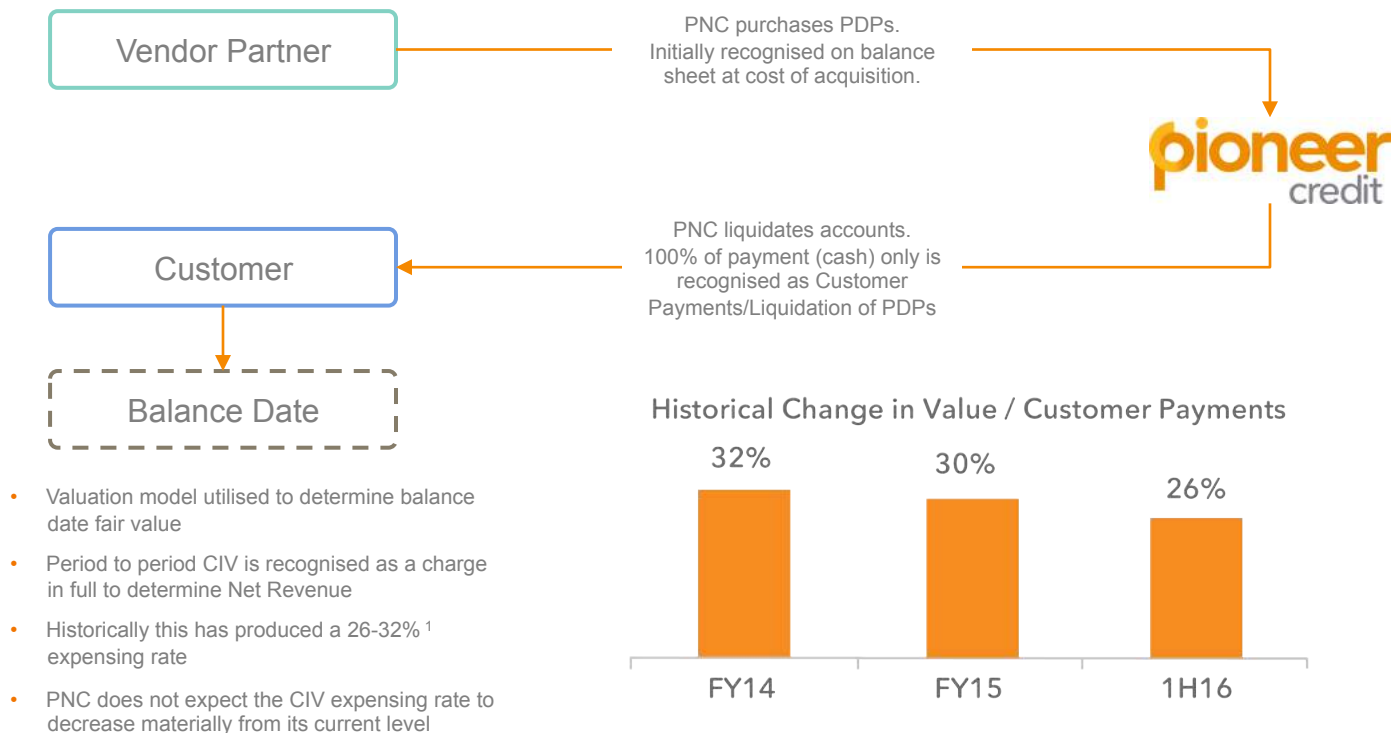
Key P&L Metrics		
EBIT Margin	17%	26%
Earnings per share	3.57cps	7.23cps

- Net Revenue growth of 36%
- EBIT Margin of 26%
- EBIT growth of 112% highlighting expense discipline and strong portfolio value management
- Change In Value (CIV) expense increases by 10%
  - Expensing rate<sup>2</sup> continues to track lower to 26.5% (slides 9 – 10 refer)
  - Cautious view maintained on carrying value
- Underlying Earnings per Share of 7.23cps
- Dividend payout policy of ~50% of Profit after Tax
  - 3.60 cps fully franked record date of 31 March 2016

## Notes

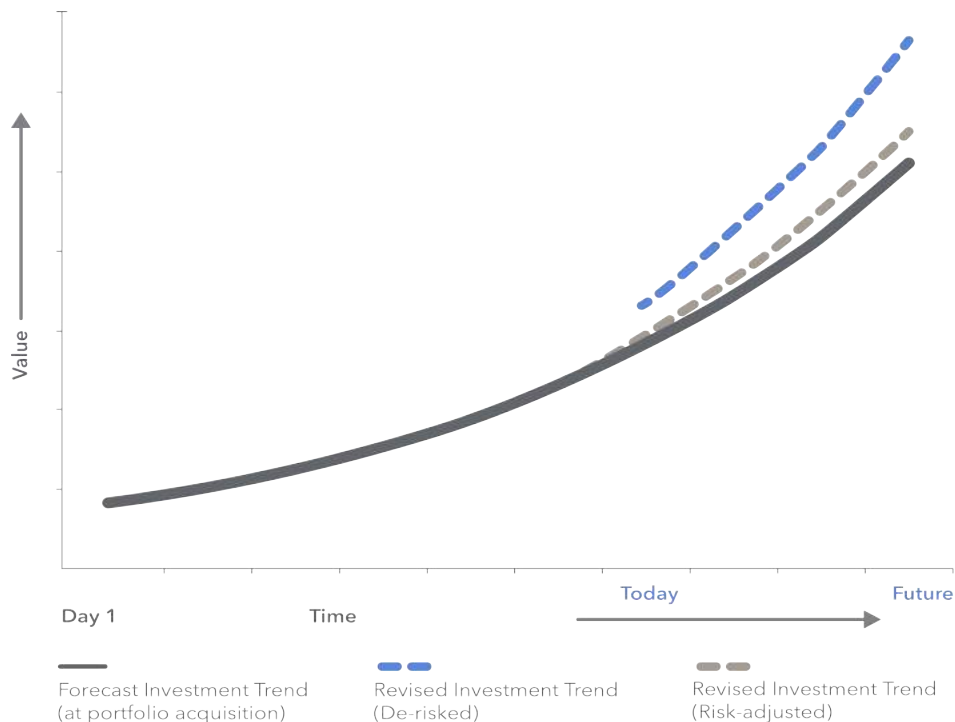
1. EBITDA includes the add back of Change In Value of PDPs
2. Calculated as Change In Value / (Liquidation and Sale of PDPs)

# What is Change in Value?



<sup>1</sup> The CIV rate is dynamic and susceptible to change, up or down, due to a range of factors including the price paid for PDPs, macro economic movements, changes in operational performance, and other risk factors.

# Financial Highlights: Improved Expensing Rate



- PNC classify PDPs at Fair Value through Profit and Loss (FVTPL) AASB 139
- PNC hold the last three months of acquired portfolios at investment cost (less liquidations)
- PNC apply a cautious view to Total Expected Liquidations (TEL) with a negative assumption bias
- PNC apply a downwards adjustment for modelling and macro economic risk at an average of 9% TEL
- PNC thereafter use a discount rate of 20.4%

**Maintain cautious assumptions to valuation**

Note: The CIV rate is dynamic and susceptible to change, up or down, due to a range of factors including the price paid for PDPs, macro economic movements, changes in operational performance, and other risk factors.

# Portfolio Performance: Improved Expensing Rate

## What's Changing?

1

### Continued improvements in operational execution

- More data sources and better analytics
- More located customers at an increasing rate
- PA default rate decreased to 3.5% p.a.
- Improved workplace offering (sought after employer attracting more and better candidates per recruitment phase)

2

### Strategy improvements from

- Increasing performance data to mine
- Leadership & people engagement
- Propensity to pay identification developments

## What's staying the same?

3

### Purchasing discipline

- Acquire best value customers available
- Highest propensity to heal
- Least credit risk
- Fair and consistent investment cost

4

### Cautious risk bias at investment

- Assumed risk is at high end of modelling
- Assumed liquidations from cautious base case
- PwC continue as independent auditors

# Portfolio Performance: Improved Expensing Rate

## What's good for our vendors?

1

### Surety of purchase commitment

- PNC has never walked away from a forward flow agreement with any originator
- Why? Pricing discipline – PNC pay a fair long-term sustainable price

2

### Brand protection

- Introduction of Net Promoter Score across PNC customer base
- Unique alignment to like banks/financiers. No payday lending, utility, telco or other lower quality customer segments

3

### Compliance record

- PNC has never had a negative outcome at an ombudsman level and has never had an enforceable undertaking to a regulator

4

### Transparency

- PNC provides 'easy' dealings to all vendor partners
- Uniquely open operations functions for vendor partner audits
- High level of information sharing
- Genuine partnership driven approach





## Key Portfolio Metrics

# Effective Relationships: Disciplined Capital Allocation

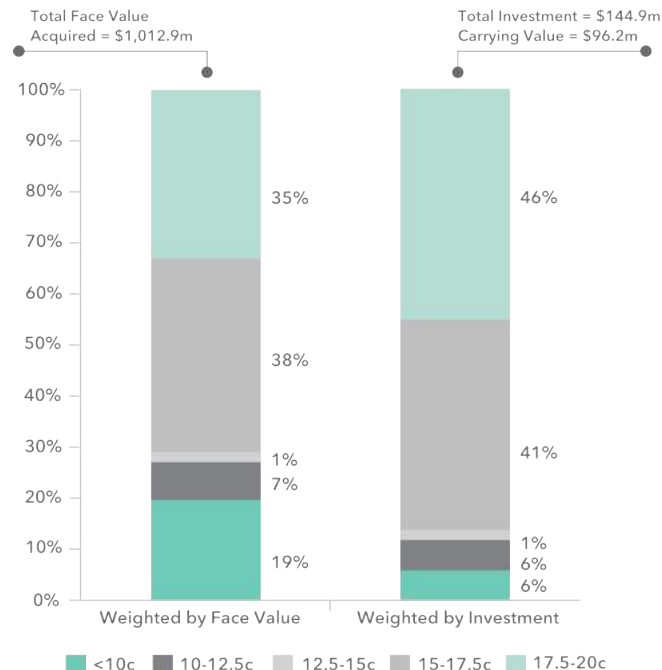
## Pioneer purchases retail customer accounts at ~180 days overdue

- Purchases Tier 1 customers (not regarded as credit impaired when originated)
- Maintenance of strong pricing discipline across well understood products
- Demonstrated capital allocation discipline across EPS accretive investments that provide future options
- Purchasing continues with 3 of 4 major banks, regional banks and leading consumer leasing providers
- Do not purchase lower value, less customer centric telecommunications, payday or utility accounts
- Weighted Average Purchase Price of 16.1c<sup>1,3</sup>
- Portfolio Carrying Value of \$96m<sup>1</sup>
- At least \$42m forecast investment for FY16

### Notes

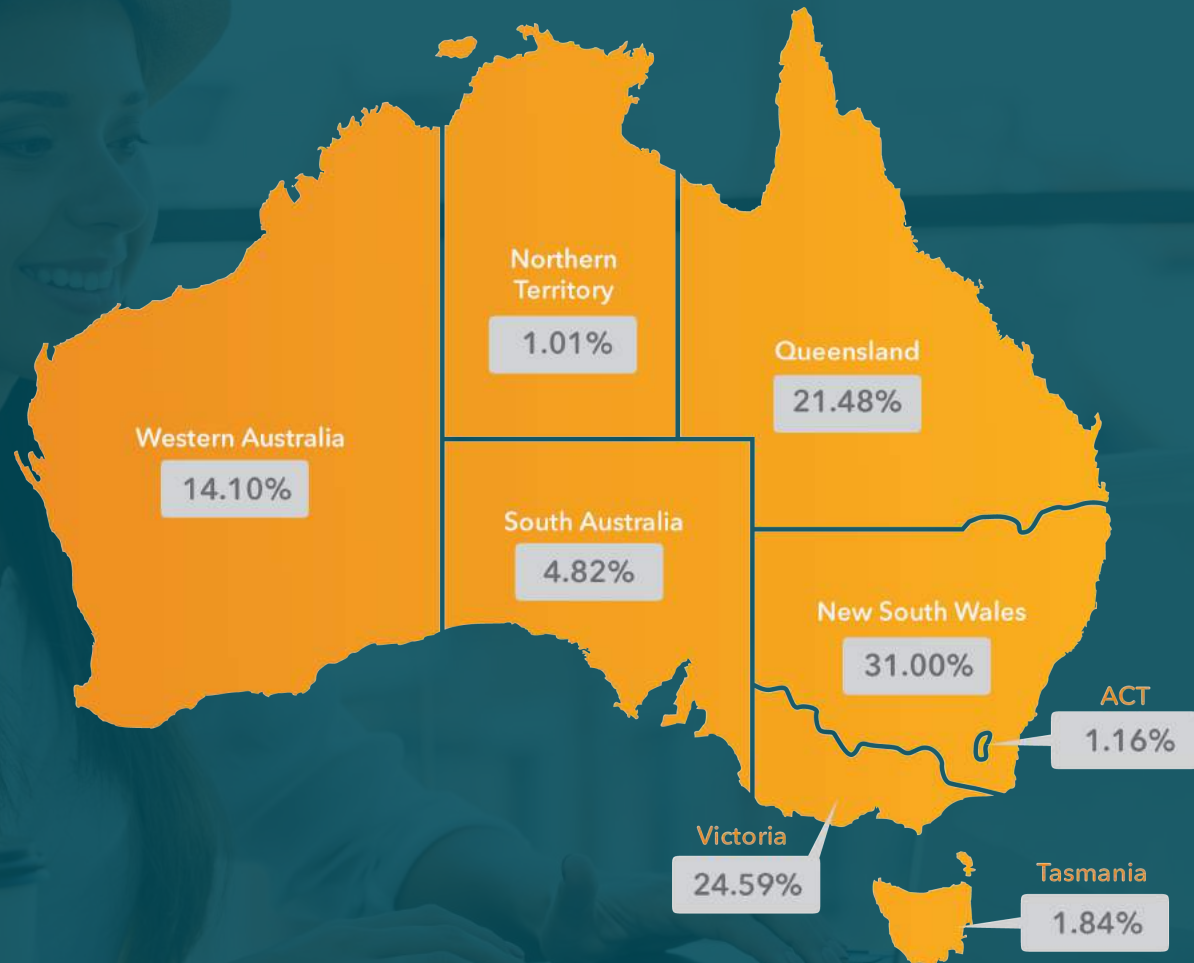
1. As at 31 December 2015
2. Excludes low value secondary or non-core portfolios of immaterial value
3. Simple average purchase price is 13.6c. Weighted average price is investment price proportional to portfolio size and represents realistic cost per \$ of PDP acquired.

### Historical Aggregate Portfolio Investment<sup>1,2</sup>



# Portfolio Geographic Spread

Portfolio distribution<sup>1</sup> by location



Note

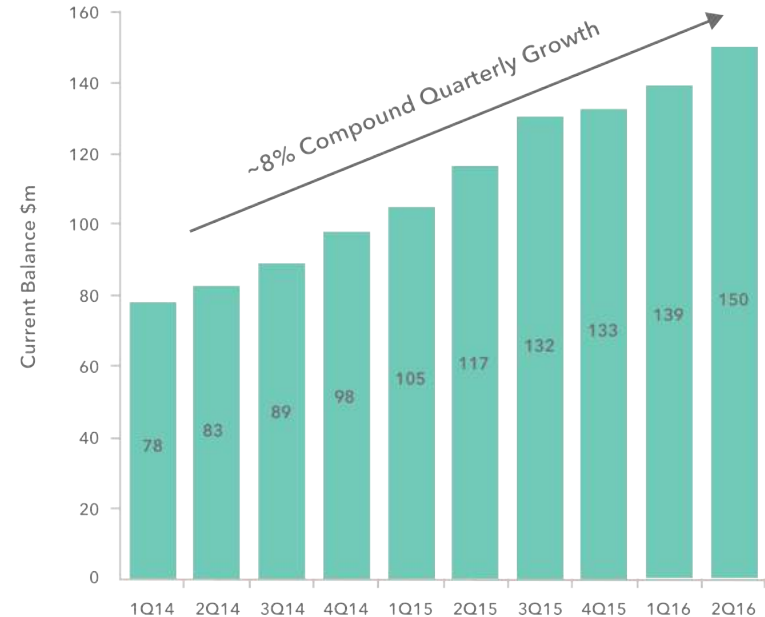
1. Based on number of customer accounts

# Service Excellence: Annuity Arrangement Stream

## Payment Arrangement Book<sup>1</sup>

- Annuity type book – which performs like a performing loan book with just a 3.5% default rate per annum
- Payment Arrangement Book has grown to \$150m
- Book has experienced compound quarterly growth of 8%<sup>1</sup>
- Average account balance of arrangement customers is ~\$10,060
- Weighted average age of payment arrangements is 2.0 years<sup>2</sup>
- Average account balance of total portfolios is ~\$11,561<sup>2</sup>

Payment Arrangement Book Current Balance (\$m)<sup>2</sup>



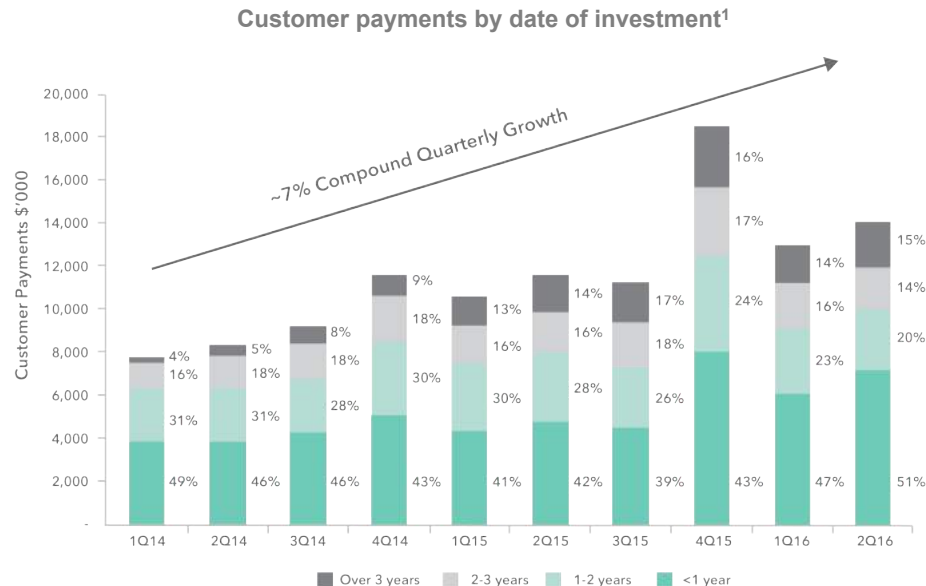
### Notes

1. Does not include Part IX (bankruptcy compromised) customers

2. As at 31 December 2015

# Continued Strong and Improving Liquidations

- Customer Payments up 22%
- Demonstrates performance across entire portfolio with increasing contributions from older part of portfolio
- Half-on-half growth in line with expectation
- Strong liquidation in first 2 years plus increasing contribution from >2 years demonstrates long term yield and supports increasing yield expectations



Note

1. Excludes portfolio sales





# Market Conditions & Outlook

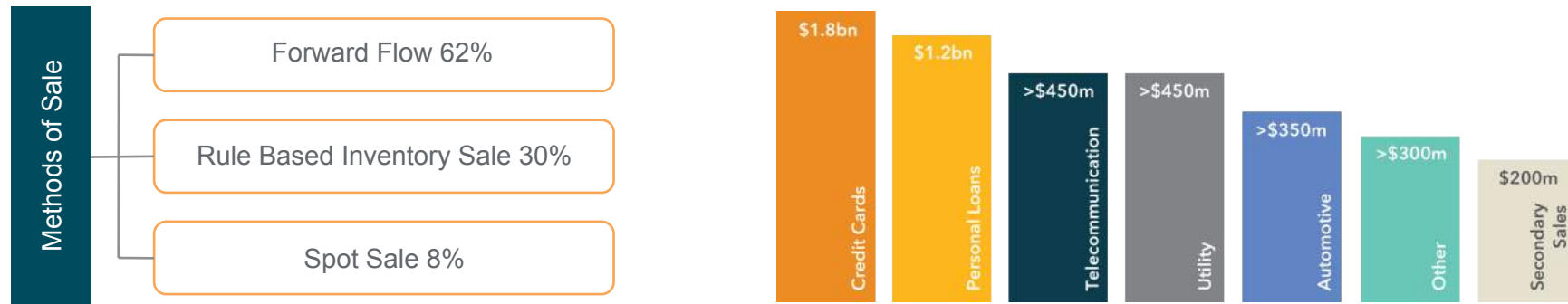
# Australian Debt Sale Market: Overview

The Australian Debt Sale market is characterised by over 40 credit issuers who are actively engaged with approximately 20 debt buyers.

Over 80% of market investment is:

- Sold by 6 major credit issuers (CBA, NAB, ANZ, Westpac, GE & Telstra)
- Purchased by 4 major debt buyers

Forward Flow remains the most common method of sale, while credit cards and personal loans continue to represent the products most frequently sold.



**Approximately \$4.5bn of debt was sold in FY15 for an expected investment of \$450m.**



# Market Conditions and Update

- Size of overall target receivables segment – estimated at ~\$300m
- Growth of overall target receivables segment - estimated at ~4% per annum
- Key economic indicators driving the overall market
  - Wage Price growth – wages are growing at their lowest level in the private sector since 2009 and public sector since 2003 driving down future disposable income relative to when loans were originated.
  - Unemployment at 5.8%. Australia still has relatively full employment but labour utilisation rates now having a noticeable impact particularly across resource heavy states.
  - Interest rates – has some impact currently on disposable income though credit card and personal loan rates are broadly unchanged since the GFC.
  - Consumer confidence – remains challenging and is now as low as it has been in over 4 years. Confidence is a strong driver of discretionary income allocation to the payment of debt.

# FY16 Outlook

- Continued focus on the demonstration and value of differentiated business strategy for vendor partners
- Investment to remain focused on similar PDPs as historically acquired
- Significant investment in corporate and administrative overhead starting to drive operational efficiency
- PNC to offer first financial product to customers

## FY16 Guidance (reiterated)

- PDP Investment of at least \$42m
- EBIT Margin of at least 31%
- **Statutory Profit after Taxation of at least \$8.8m**







## Appendices





## Leadership Principles

# | THE LEADERSHIP PRINCIPLES



## TECHNICAL Competence

Be consistent and relentless in exhibiting best practice and sharpening your skills.

*Always act with integrity.*



## UNWAVERING Passion

*The fire inside you* and the love for what you do and for your team *needs to be visible to all around you.*



## UNLIMITED Accessibility

Being available when no one else is.



## CLEAR Communication

Learn to *connect with people* in a way they can relate.



## FEARLESS Vision

Forward plan to *carve the path to exceptional results.* Don't be afraid to look outside the square and commit to what you see.



## SELFLESS Loyalty

Put your team and your company first without question.



## Board & Senior Management



# Board of Directors



**Michael Smith**

Chairman

**Mark Dutton**

Non-Executive  
Director

**Keith R. John**

Founder and Managing  
Director

**Rob Bransby**

Non-Executive  
Director

**Anne Templeman - Jones**

Non-Executive  
Director

# Board of Directors

**Michael Smith**  
Chairman

- Appointed Non-Executive Chairman of Pioneer in February 2014
- Managing Director of strategic marketing consultancy firm Black House
- Chairman of 7-Eleven Stores Pty Ltd and the Lionel Samson Sadleir Group, Board Member of Creative Partnerships Australia

**Keith R. John**  
Founder and  
Managing Director

- Founder of Pioneer and has been in the receivables management industry since 1988
- Formerly a Director of ACA International Inc (the US based representative body of the worldwide receivables management industry) and TCM Group International Inc (the largest independent network of affiliated receivables management agents in the world)
- Director of the Australian Collectors and Debt Buyers Association Ltd (peak industry body)
- Recognised as one of Western Australia's most exceptional young business leaders in the WABN '40 Under 40' Award in 2006

**Mark Dutton**  
Non-Executive  
Director

- Appointed as a Director of Pioneer in May 2010
- Founder and Director at Banksia Capital
- Prior to commencing his private equity career, Mark worked in Audit and Corporate Finance at PwC in the UK and Russia
- Holds an MA in Management Studies and Natural Sciences from the University of Cambridge

**Rob Bransby**  
Non-Executive  
Director

- Appointed as a Director of Pioneer in February 2014
- CEO and MD of Western Australia's largest private health insurer, HBF. Joined in Aug 2005 following 25 years at NAB
- President of Private Healthcare Australia and the Australian representative on the International Federation of Health Plans Council of Management
- Senior Fellow of the Financial Services Institute of Australia and the Australian Institute of Management

**Anne  
Templeman –  
Jones**  
Non-Executive  
Director

- Appointed as a Director of Pioneer in September 2014
- Director of Cuscal Limited and APN News & Media Limited
- Significant banking experience including 7 years to 2013 at Westpac including tenure as Head of Strategy & Risk for Pacific Bank Operations and Director Strategy, Institutional Bank
- Chartered Accountant with a Bachelor of Commerce from UWA, an Executive MBA from AGSM and a Masters in Risk Management from the University of NSW



# Executive Team



**Leslie Crockett**

Chief Financial Officer

**Sue Symmons**

General Counsel and  
Company Secretary

**Keith R. John**

Founder and Managing  
Director

**Lisa Stedman**

Chief Operating Officer

**Tony Bird**

Chief Risk Officer

# Executive Team

**Keith R. John**  
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- Director of the Australian Collectors and Debt Buyers Association Ltd (peak industry body)
- Recognised as one of Western Australia's most exceptional young business leaders in the WABN '40 Under 40' Award in 2006

**Leslie Crockett**  
Chief Financial  
Officer

- Appointed CFO in December 2012. He has experience in a range of industries including financial services, property development, construction, retail and manufacturing
- Chartered Accountant with an international academic background and previously consulted at Deloitte Touche Tohmatsu in the United States
- Holds a Diploma of Business from Melbourne Business School

**Lisa Stedman**  
Chief Operating  
Officer

- Commenced with Pioneer in 2011. Previously, Lisa was the State General Manager for a national health club chain managing 550 staff and 35,000 members across 12 locations in Western Australia
- Transformed Pioneer's Customer Service Team, through building a high performance culture
- Graduate of the University of Exeter with an Honours degree in Exercise and Sports Science

**Sue Symmons**  
General Counsel  
and Company  
Secretary

- Joined Pioneer in October 2015
- Over 25 years' experience as a company secretary including positions with Heytesbury Pty Ltd and ASX listed Evans & Tate Ltd, Automotive Holdings Group Limited and Helloworld Limited

**Tony Bird**  
Chief Risk Officer

- Commenced with Pioneer in 2016
- Over 25 years' banking and finance experience, most notably in the past 10 years as part of the CBA Group where he held the roles of Executive Manager Collections Strategy, Head of Retail Credit Risk (BankWest) and Head of Investigations & Management Information

# Contacts

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