
FY19 Results presentation

# Collection House Limited

August 2019

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# Company summary

## FINANCIAL SUMMARY (CLH.ASX)

| | |
|---|---|
| Share price (28 August 2019) | $1.10 |
| Shares on issue | 139.3 million |
| Market Capitalisation | $153.2 million |
| Net Debt (30 June 2019) | $210.6 million |
| Enterprise Value | $362.2million |

## BOARD AND SENIOR MANAGEMENT

| | |
|---|---|
| Leigh Berkley | Independent Chairman |
| Anthony Rivas | Managing Director & CEO |
| Michael Knox | Indep. Non-executive Director |
| Sandra Birkensleigh | Indep. Non-executive Director |
| Catherine McDowell | Indep. Non-executive Director |
| Doug McAlpine | Chief Financial Officer and Co Sec |
| Jonathon Idas | Chief Legal Officer |
| Anand Adusumilli | Chief Data Scientist Officer |
| Denica Saunders | Chief Operating Officer |

**CollectionHouse Limited**
Debt collection services and receivables management for third parties

**LionFinance**
Debt purchasing and recovery

**CLH Lawyers**
Legal services including insolvency administration

**CollectiveLearning and Development**
Nationally recognised training provider in financial services and leadership

**CLH Business Services**
Customer service outsourcing for third parties

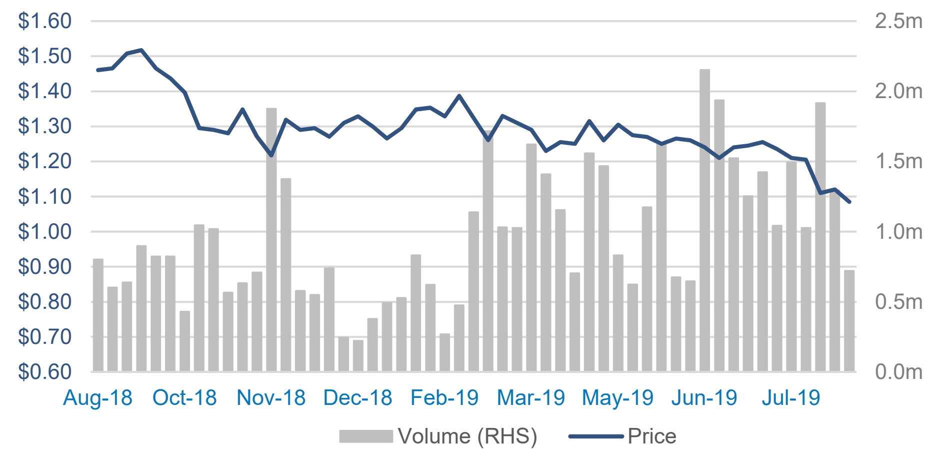
**ThinkMe Finance.**
Licensed specialist finance broker for the provision of credit

**ReceivablesManagement(NZ)Limited**
New Zealand supplier of receivables and debt management.

**MCC**
Tailored debt collection services, specialising in Local Government

**SAFE HORIZONS**
Provision of financial hardship services for third parties

## PRICE & VOLUME (WEEKLY)



## Strong late growth, building for the future

- Group revenue of $161.1 million up 12% on pcp. Normalised Group NPAT of $21.7m up 8% on pcp.
- Purchase Debt Ledger (PDL) segment reported revenue of $93.7 million, up 25% boosted by PDL growth and a positive revenue recognition change under AASB 9. Segment EBIT enjoyed the same benefits, and increased 42% to $52.1 million.
- Active repayment Arrangements continued their uptrend to $439.0m from $334.8m at the end of FY18. We expect this improvement to continue.
- Collection Services reported revenue of $67.6m, a 2% decrease on FY18. The Financial Services Royal Commission and the timing of the Federal Election impacted demand during the period but we expect an improvement in FY20, with current run rate tracking 8% above FY19.
- Completed the acquisition of Receivables Management (NZ) Limited ("RML") and the assets of ACM Group both of which are performing to expectations.
- EPS (ex PEP) was 15.8cps versus 15.5cps (guidance) with delays to some of our expected Cash Collection initiatives and a lower than expected result in Collection Services, offset by near term favourable changes to amortisation expenses from the adoption of AASB 9.
- A final FY19 dividend of 4.1 cps was declared, taking the full year to 8.2 cps, a small improvement on pcp ( FY18: 7.8cps) and the DRP is once again available to shareholders, this year at a 5% discount.
- Due to the various investments made over recent years in PDL, technology, people and processes our Cash Collection rate will improve materially in FY20 and we are forecasting FY20 PDL Cash Collections of $145m - $155m (ex PEP).

FY19 RESULTS SUMMARY

# A decent result, with room for improvement

| Year to June ($m) | FY17 | FY18 | FY19 | Δ% pcp |
|---|---|---|---|---|
| Reported (post reallocation) | | | | |
| PDL Cash Collections | 104.6 | 126.8 | 135.7 | 7.0% |
| Amortisation of PDL* | (39.6) | (51.8) | (42.0) | -18.9% |
| Collection Services Revenue | 68.2 | 69.0 | 67.6 | -2.1% |
| Unallocated | 0.1 | (0.2) | (0.2) | 18% |
| Total Revenue | 133.4 | 143.9 | 161.1 | 12.0% |
| EBITDA | 75.0 | 100.0 | 97.9 | -2.1% |
| Net Profit After Tax | 17.4 | 26.1 | 30.7 | 17.5% |
| EPS (cents) | 12.9 | 19.2 | 22.3 | 16.0% |
| Dividend (cents) | 7.8 | 7.8 | 8.2 | 5.1% |
| Normalised | | | | |
| Normalised EBITDA | 77.7 | 91.5 | 85.1 | -7.0% |
| Normalised Net Profit After Tax | 20.0 | 20.2 | 21.7 | 7.7% |
| Normalised EPS (cents) | 14.8 | 14.9 | 15.8 | 6.3% |

* With the full adoption of AASB 9 there is no longer an amortisation charge. We have included it for the purpose of comparisons. The FY19 number represents an implied amortisation amount only.

- We enjoyed 7% growth in PDL Cash Collections including the Portfolio Enhancement Programme (“PEP’).
- Lower implied amortisation under the new AASB 9 accounting standard meant that the period saw 12% Revenue growth, despite a 2% decline from our Collection Services operations.
- We had expected PDL Collections to improve further in FY19, but the step-up did not begin until after the period end due to timing of bedding down portfolio acquisitions.
- NPAT was $30.7m resulting in EPS of 22.3cps (+16%) enhanced by the profit under PEP and a one off favourable change in accounting from AASB 9.
- Normalised EPS were 15.8cps marginally above guidance of 15.5cps excluding the contribution from PEP and $1.2m (pre-tax) in one off costs associated with the acquisitions of ACM and RML.
- The Board declared a second half dividend of 4.1 cps taking the full year payout to 8.2 cps. The DRP remains active at a 5% discount.

# Strong growth and now planning for the future

| Year to June ($m) | 2H17 | 1H18 | 2H18 | 1H19 | 2H19 | Δ% |
|---|---|---|---|---|---|---|
| Cash | 1.2 | 0.3 | 0.5 | 5.9 | 1.6 | |
| Purchased debt ledgers | 47.3 | 54.9 | 52.7 | 61.0 | 52.5 | |
| Other | 12.4 | 15.3 | 22.0 | 21.7 | 13.0 | |
| Current Assets | 60.9 | 70.5 | 75.1 | 88.6 | 67.1 | -24% |
| | | | | | | |
| Purchased debt ledgers | 236.3 | 245.6 | 259.2 | 265.2 | 357.8 | |
| Intangibles | 36.3 | 35.7 | 34.0 | 33.8 | 42.3 | |
| Other | 4.4 | 3.6 | 2.6 | 2.4 | 3.3 | |
| Non Current Assets | 277.1 | 284.9 | 295.8 | 301.4 | 403.4 | 34% |
| | | | | | | |
| Borrowings | 0.0 | 10.6 | 2.6 | 0.0 | 14.7 | |
| Other | 17.3 | 19.4 | 23.1 | 19.7 | 24.1 | |
| Current Liabilities | 17.3 | 30.0 | 25.7 | 19.7 | 38.8 | 97% |
| | | | | | | |
| Borrowings | 123.2 | 125.0 | 131.9 | 153.0 | 195.9 | |
| Other | 8.9 | 8.4 | 6.8 | 6.0 | 6.7 | |
| Non Current Liabilities | 132.1 | 133.4 | 138.7 | 159.0 | 202.6 | 27% |
| | | | | | | |
| Net Assets | 188.6 | 192.0 | 206.6 | 211.3 | 229.1 | 8% |
| | | | | | | |
| Net borrowings/PDL carrying value % | 43.0% | 45.0% | 43.0% | 45.1% | 50.9% | |
| Gearing (ND / ND+E) | 39.3% | 41.3% | 39.3% | 41.1% | 47.7% | |

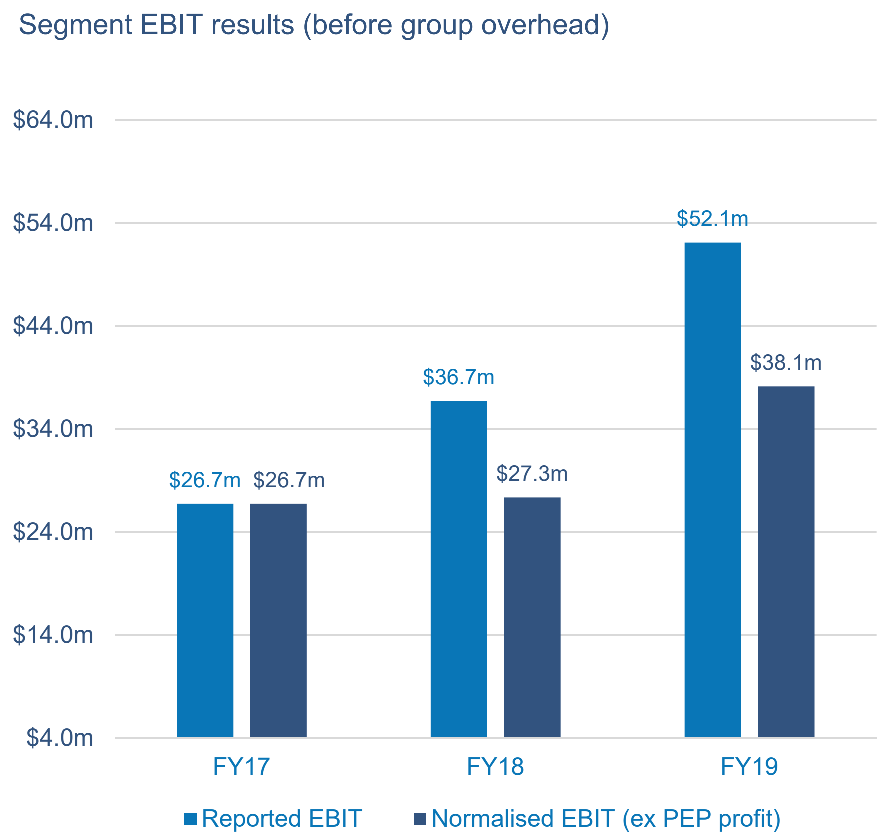
- The Group has senior debt facilities of $225.0m plus a $12.5m overdraft.
- At period end drawn debt was $210.6m leaving limited headroom under existing facilities.
- Net gearing at 48% - to support PDL growth and acquisitions.
- Due to forecast improvement in cash collections, we expect to be able to fund FY20 PDL growth without further debt draw down.
- The Company has developed a new capital management plan to support future growth and acquisitions.
- Our relationship with Balbec provides access to further $100m capital to purchase PDLs through an off balance sheet structure.

# A year of investment

| Year to June ($m) | FY17 | FY18 | FY19 | Δ% |
|---|---|---|---|---|
| Cash Collections | 174.9 | 191.3 | 213.4 | 12% |
| Operating expenses | (112.9) | (105.4) | (126.6) | 20% |
| Operating cash flow | 62.0 | 85.9 | 86.8 | 1% |
| PDL acquisitions | (58.3) | (81.3) | (132.6) | 63% |
| Equity Instrument | - | - | (8.5) | n/a |
| Capex | (1.8) | (1.4) | (4.7) | 238% |
| Investing cash flow | (60.1) | (82.7) | (145.8) | 76% |
| Net proceeds from borrowings | 5.0 | 11.2 | 75.8 | n/a |
| Net proceeds from equity | (9.5) | (9.0) | (8.4) | -7% |
| Other | (5.1) | (6.0) | (7.2) | 20% |
| Financing cash flow | (9.6) | (3.9) | 60.1 | n/a |
| Change in cash | (7.7) | (0.7) | 1.1 | n/a |
| Cash at year end | 1.2 | 0.5 | 1.6 | n/a |

- Group Cash Collections (Lion Finance & Collection Services) increased by 12%.
- Cash Operating expenses temporarily elevated due to acquisitions and one-off costs.
- The increase in capital expenditure was in part due to investments in Trust & Billing enhancements and software including: Workforce Management, Portal and Artificial Intelligence.
- We also invested $8.5m in a Australian neo-bank Volt, with whom we are building a commercial relationship.
- Earlier this year we acquired the assets of two smaller competitors RML (NZ) and ACM which together with ongoing investment in PDLs lifted total acquisition expenditure by 63% to $132.6m.
- Operating cashflow post year-end has been strong and should continue to trend higher.

# Strong profit growth creates new higher base level




- Following an 18% improvement in the 1H19 EBIT, the full year results have been very strong, supported by the change to AASB 9 accounting. Additional details are available in the Appendix.
- 2H19 is the final period from which we were still meaningfully exposed to under investment in prior years, and FY20 will see a substantial improvement in Cash Collections and revenues.
- In January 2019, we announced the acquisition of Receivables Management (NZ) Limited (RML) for NZ$14.1m. RML has NZ$22.0m in expected recoveries and is expected to contribute A$2.8m EBIT in FY20.
- In March 2019 we announced the acquisition of assets from ACM Group Limited for $40.3m. ACM has $75.0m in expected future recoveries and is expected to contribute $5.5m EBIT in FY20.
- As the PDL portfolio matures, the average implied amortisation rate will increase (refer slide 18)

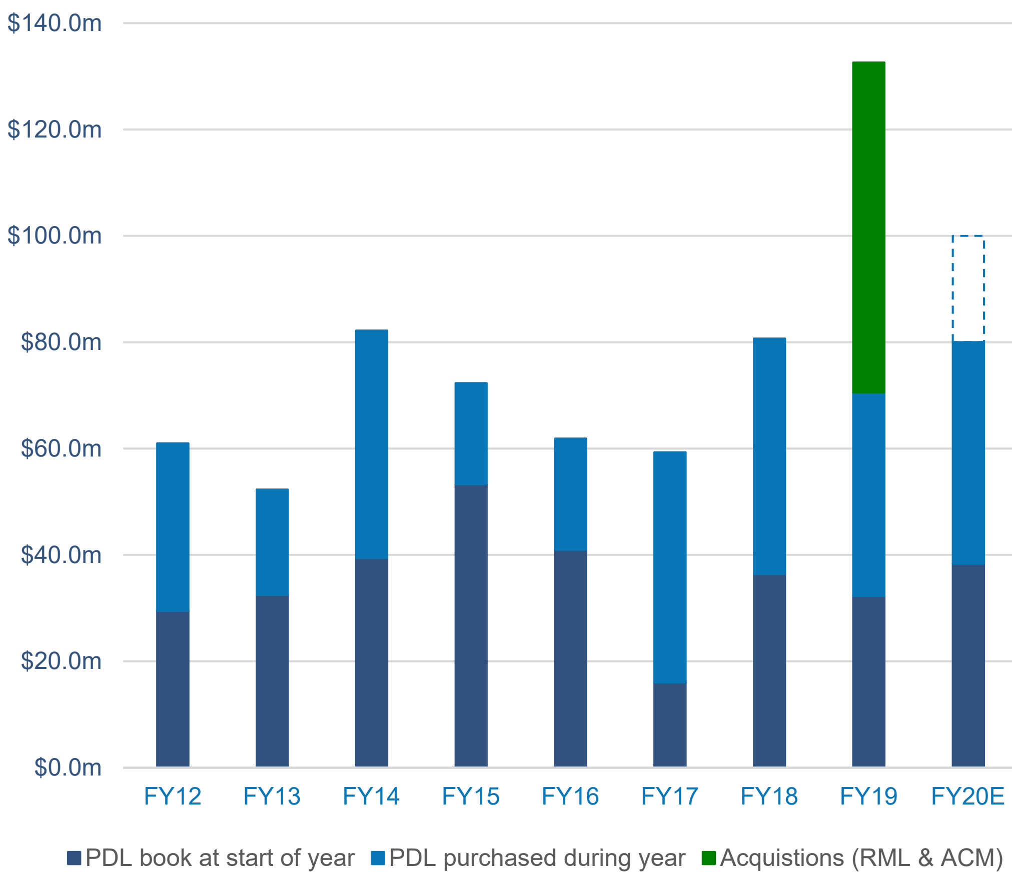
## Growth in volume across the board

| Year to June ($m) | 1H16 | 2H16 | 1H17 | 2H17 | 1H18 | 2H18 | 1H19 | 2H19 |
|---|---|---|---|---|---|---|---|---|
| **Total portfolio** | | | | | | | | |
| Face value | $1.6bn | $1.5bn | $1.5bn | $1.6bn | $1.7bn | $1.7bn | $2.1bn | $2.2bn |
| Number of Accounts | 296,000 | 262,000 | 262,000 | 258,000 | 253,000 | 260,000 | 295,000 | 471,000 |
| Average balance | $5,302 | $5,576 | $5,819 | $6,154 | $6,554 | $6,577 | $7,051 | $4,671 |
| **Arrangement book** | | | | | | | | |
| Face value | $387.0m | $357.0m | $319.0m | $317.0m | $320.0m | $334.8m | $431.0m | $439.0m |
| Number of accounts | 55,000 | 49,000 | 44,000 | 42,000 | 42,000 | 43,000 | 50,000 | 57,000 |
| Average balance | $7,036 | $7,286 | $7,250 | $7,548 | $7,680 | $7,786 | $8,620 | $7,702 |
| % of PDL collections | 77% | 77% | 76% | 68% | 74% | 76% | 74% | 77% |

- We have grown the number of active accounts by ~50% over the last two years.
- The acquisition of assets from ACM Group included a significant number of accounts but many have lower balances, which has reversed the uptrend in Average Balances of recent years, but we believe a mixed portfolio is desirable.
- We now have 57,000 accounts under a payment Arrangement, 32% growth on pcp. This growth has been achieved despite the FY19 PEP transaction, which saw $59m in face value transitioning out of the book, and the proceeds reinvested in new PDLs.
- FY18 and FY19 PEP transactions are both performing to plan.

# A record year for PDL purchasing

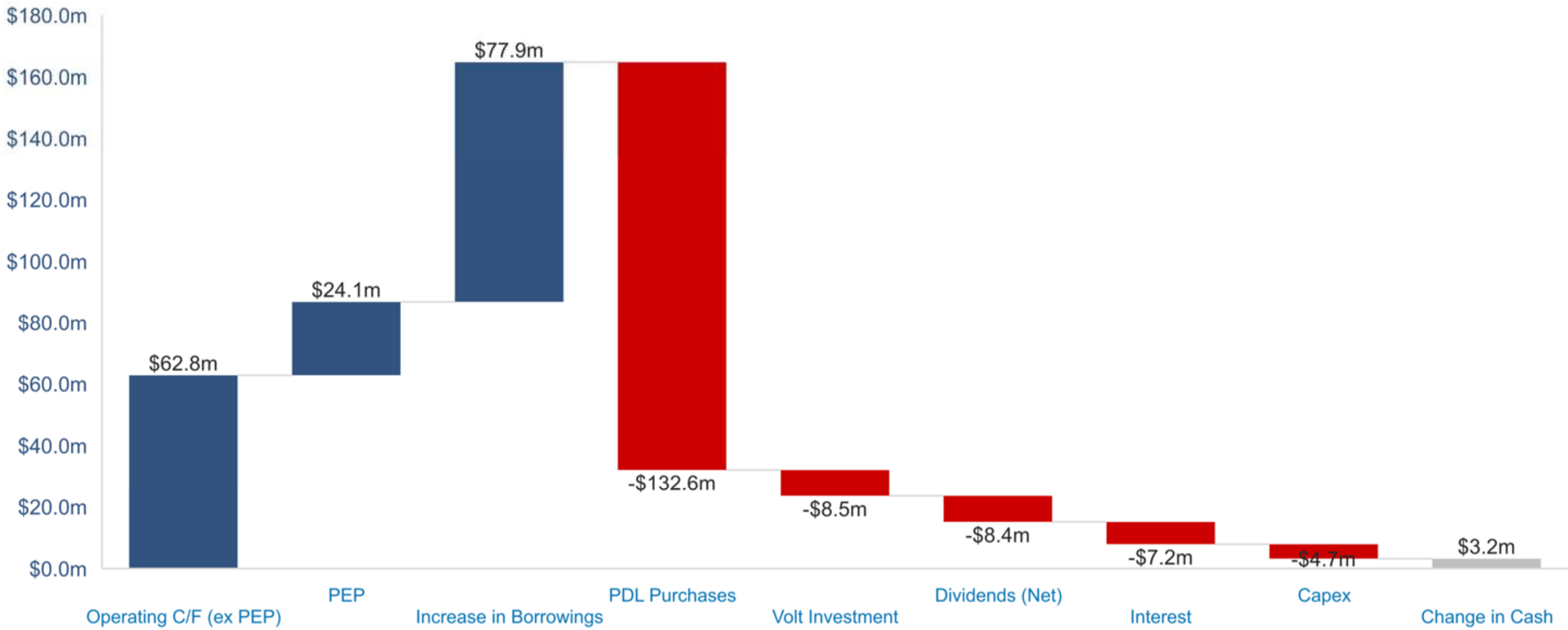
PDL purchase pipeline




- In FY19, we invested $132.6m in new PDL acquisitions, a record for the group.
- This included investments in two corporate acquisitions of PDL books (ACM & RML). We are pleased with how they are performing.
- The market for PDL purchases is anticipated to remain favourable.
- We continue to see opportunities in the market due to the dynamics of both supply and demand.
- Our PDL purchase guidance for FY20 is $80-100m, of which $38m has already been committed.

OPERATIONAL EFFICIENCY

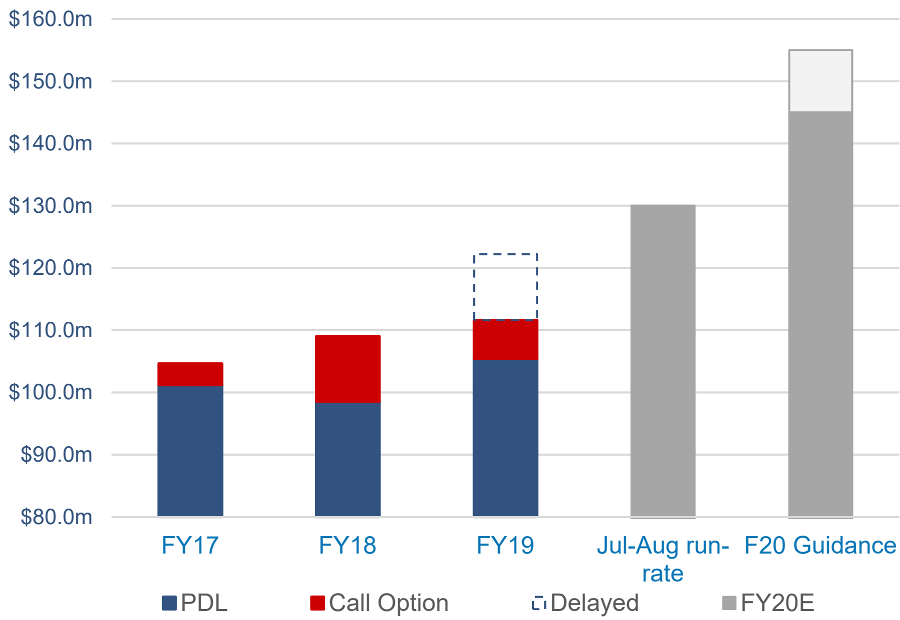
# Managing cashflow to grow our assets




- In FY19 we invested $132.6m in PDLs and $8.5m in Volt Bank shares, and distributed $8.4m in Dividends (Net of DRP) to shareholders.
- This was funded with just a net $77.9m in new debt, due to an improvement in Operating Cashflow and the Portfolio Enhancement Programme (PEP).
- The result of these portfolio investments will produce a step-change in Cashflow in FY20.

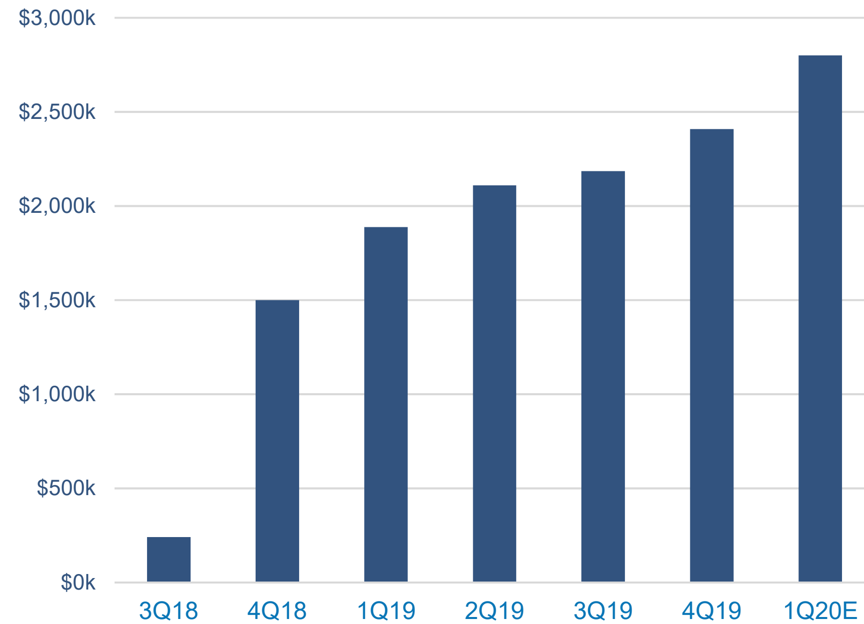
# FY20 will see a step-change in our Cash Collections

## PDL Collections by source (ex PEP)




- We enjoyed incremental growth in FY19 but it was below our expectations with several initiatives not gaining traction until late in the period.
- Post year end, July and August have been much improved and we are tracking to FY20 guidance of $145-155m Cash Collections in FY20 (ex PEP).
- FY20 Cash Collections guidance equates to 30-39% growth on FY19.

## Online Self-serve Portal Quarterly Collections

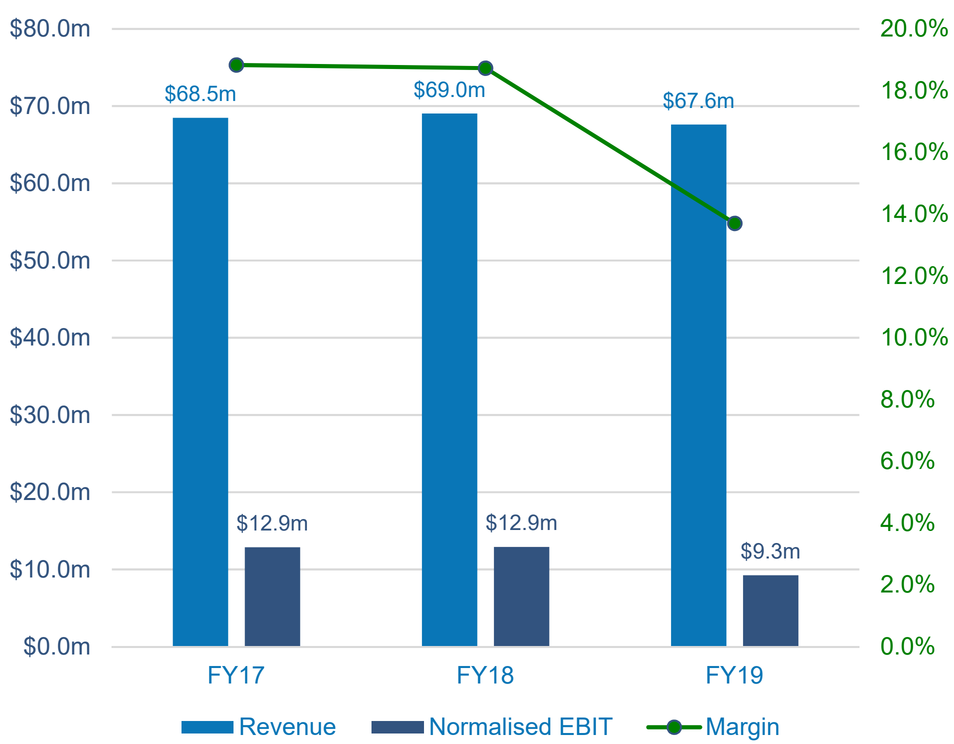



- Our online self-service Portal, launched in December 2017 has provided a consistent source of Collections and accounted for 8% of all Collections during 2H19.
- We continue to invest in developing the product including new humanlike avatars soon to be launched.

COLLECTION SERVICES: RESULTS

# Market disruption impacted both halves

Segment EBIT results (before group overhead)




- We flagged in the first half as our banking and finance clients were reviewing collection procedures and governance oversight ahead of The Financial Services Royal Commission report.
- This impacted the 1H19 result, which we had expected to recover from in 2H19, but the half was also impacted by the federal election.
- The anticipated rebound did not transpire, but in recent months, we have seen an 8% increase on FY19 run rate revenue.
- New client acquisition in FY20 will further diversify risk through growth outside of the banking sector, expanding both New Zealand market share and our international client base.
- Businesses within segment:
  - Collection House Limited (including NZ, Government Services and Philippines)
  - CLH Lawyers
  - Midstate CreditCollect
  - Collective Learning and Development
  - CLH Business Services

# FY20 - Significantly improved cash realisation ahead

## PDL Cash Collections Guidance

30-39% growth on FY19

A strong upturn since year end with targeted collections now $145-155 million (ex PEP)

## PDL Purchasing Outlook

The market continues to offer ample opportunity to deploy capital in both Australia and New Zealand, with both supply and demand mechanics favourable.

## PDL Purchase Guidance

$80–100 million

## PDL Pricing

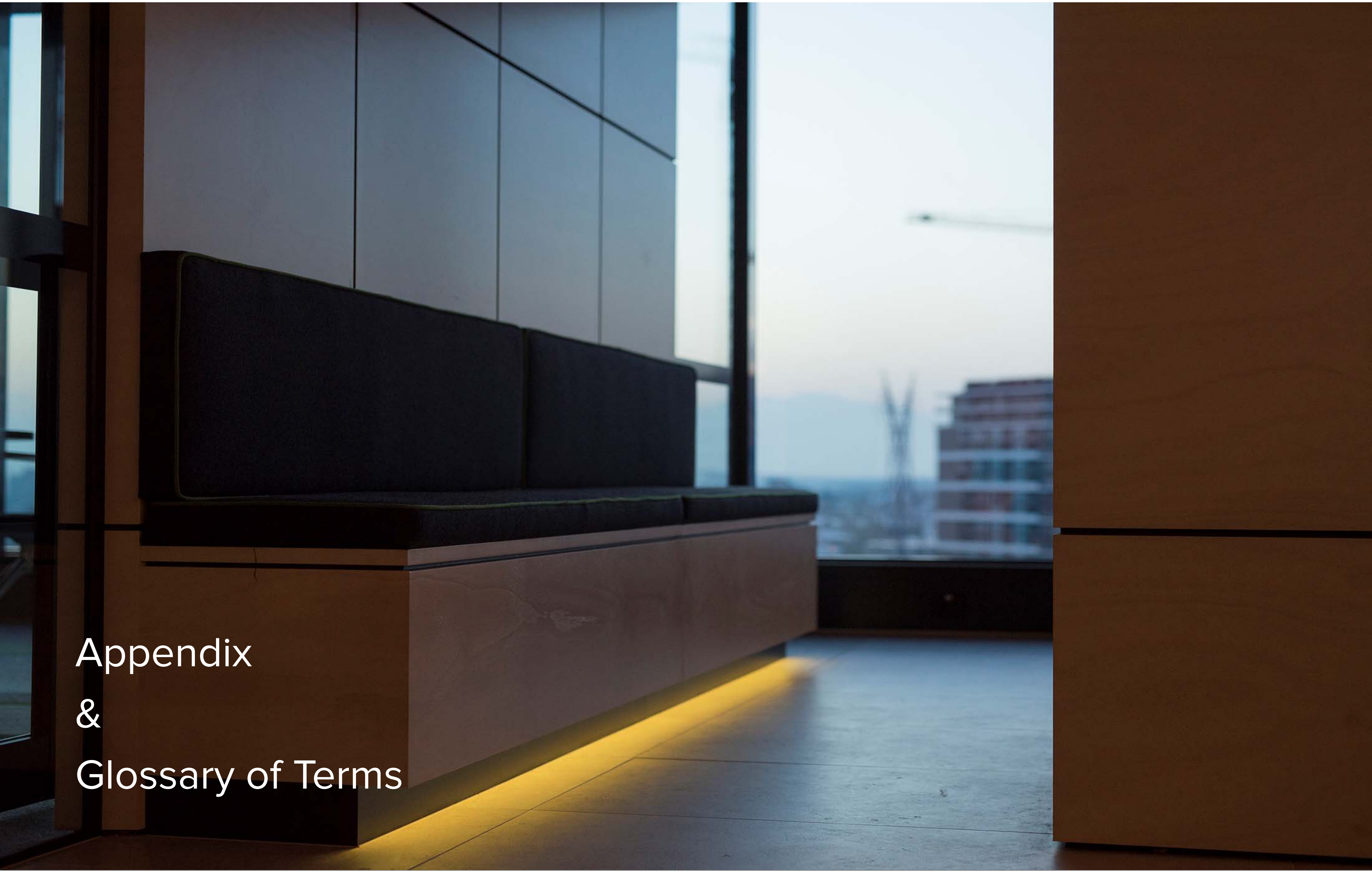
Remains stable and favourable

## Collection Services

Some recovery from a very disrupted year likely to be augmented by new clients and an expansion of our services base in New Zealand. Post year-end trading has improved.

## EPS Guidance

To be provided at the AGM due to emerging market opportunities


Appendix
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Glossary of Terms

GLOSSARY OF TERMS

# Industry lingo and financial terminology

**INDUSTRY TERMS USED**

- AASB 9 - A change in the Australian Accounting Standard from AASB 139, effective 1 /1/2018 which determines where financial assets and liabilities are measured at fair value or amortised cost. http://www.aasb.gov.au/admin/file/content105/c9/AASB9_12-14.pdf
- Amortisation of PDLs - The process of allocating the repayment of the PDL principal to pay down the cost of the PDL over a period of time, according to its expected price multiple.
- Collection Services - The collection of consumer debts on a success fee basis by entities seeking to accelerate cash flow and minimise credit default risks.
- Customer Segmentation - The practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests and spending habits.
- ECL's – Expected Credit Losses. AASB 9 replaces the 'incurred loss' model in AASB 139 with the ECL model.
- EMR – Expected Monthly Revenue is the average recurring monthly payments received from our Arrangement customers that have committed to a regular payment plan to extinguish their outstanding debt.
- FTE - The hours worked by one employee on a full-time basis. Used to convert the hours worked by several part-time employees into the hours worked by full-time employees.
- Face Value – Original balance of debt purchased
- Liquidations - Percentage of face value recovered
- Non-Voice Collections - A method of customer engagement without the use of employees. For example, fostering a customer interaction through an online self-service portal.
- POCI - Purchased or originated credit impaired assets under AASB 9.
- Purchased Debt Ledgers (PDL) - Purchased written-off, distressed consumer debt
- PDL carrying value – Cost of the PDL book less the amortisation of the same PDLs
- PDL cash collection - Gross recovery dollars on purchased debt
- Arrangement Book - A group of customers currently engaged in formal commitments to repay their account in instalments over a period of time.
- Vintage – The year the debt was purchased
- Portfolio Enhancement Programme (PEP) – includes CLH developed programmes such as Call Options, Call and Put Options and other strategies involving PDL account management.
- Interactive Debt Collection Portal (IDCP) - Ddigital experience that speeds up the process of engaging with customers by offering convenient methods to manage their account
- Omni-channel – Approach to collections strategies involving non-voice, voice and other various methods to contact the consumer
- Kara Education Programme – Consumer education programme utilising our portal character Kara, to engage through social media, videos and other channels

**FINANCIAL TERMS USED**

Reported (pre-reallocations) – The statutory results that were reported previously.

- Reported (post-reallocations) – The statutory results adjusted for the change in the way the company's expenses are reported between the various segments. The change was implemented during 1H18 and included the transfer of ThinkMe and Safe Horizons. These changes have been backdated to provide a clearer picture of the trends.
- Normalised – The earnings adjusted for items that are considered unusual and one-off, used to provide a clearer picture of the company's earnings. This is the key earnings information by which professional investors will assess the company's value and progress.
- Underlying - The earnings before normalisation events and historically adjusted to show what the earnings would have been had the new more conservative amortisation policy been adopted in earlier periods.

# Normalisation adjustments

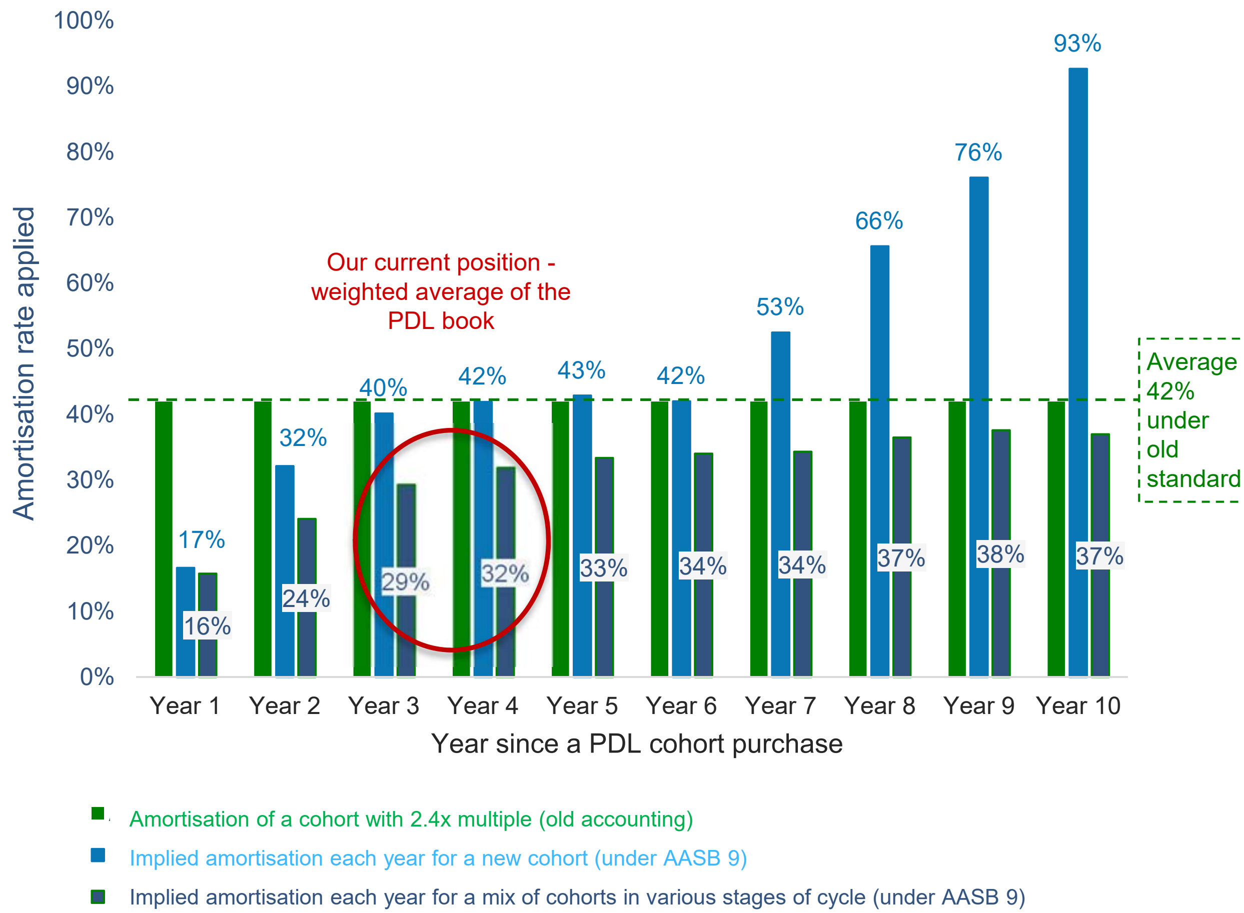
| Year to June ($'000) | EBIT 1H17 | EBIT 2H17 | EBIT 1H18 | EBIT 2H18 | EBIT 1H19* | EBIT 2H19* | NPAT 1H17 | NPAT 2H17 | NPAT 1H18 | NPAT 2H18 | NPAT 1H19* | NPAT 2H19* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Reported (post reallocation)** | 15,050 | 16,064 | 14,546 | 28,827 | 15,523 | 35,738 | 8,189 | 9,198 | 8,231 | 17,892 | 8,498 | 22,192 |
| LESS: Profit on Balbec | 0 | 0 | 0 | -9,562 | 0 | -13,959 | 0 | 0 | 0 | -6,693 | 0 | -9,771 |
| LESS: Profit on PDL sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ADD: Relocation costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ADD: Restructuring costs | 150 | 47 | 485 | 597 | 116 | 660 | 105 | 33 | 340 | 418 | 81 | 462 |
| ADD: M&A and Other | 0 | 0 | 0 | 0 | 347 | 52 | 0 | 0 | 0 | 0 | 243 | 36 |
| ADD: C5 Software write off | 0 | 2,497 | 0 | 0 | 0 | 0 | 0 | 1,748 | 0 | 0 | 0 | 0 |
| ADD: CHIBI & NZ Tax adj. | 0 | 0 | 0 | 0 | 0 | 0 | 501 | 190 | 0 | 0 | 0 | 0 |
| **Normalised** | 15,200 | 18,608 | 15,031 | 19,862 | 15,985 | 22,491 | 8,795 | 11,169 | 8,571 | 11,617 | 8,822 | 12,919 |

* *Change to AASB 9 recognition policy*

# Understanding the new standards

- Prior to AASB 9 the Company applied a prudent approach to the amortisation rate across the whole PDL book.
- Under the old method, we applied amortisation to the principal portion of the cash collected, and the remaining cash was booked as interest revenue.
- Under AASB 9, interest revenue is first estimated using the "Effective Interest Rate" on asset value. This revenue is deducted from the cash collections and then the remaining portion of the cash collection is applied as a principal repayment of the PDL asset (in this sense, its an implied amortisation under the old standard).
- The chart is an illustration of the AASB 9 compared to the old method of flat amortisation. Under AASB 9 the implied amortisation varies each year depending on the age of the overall PDL book

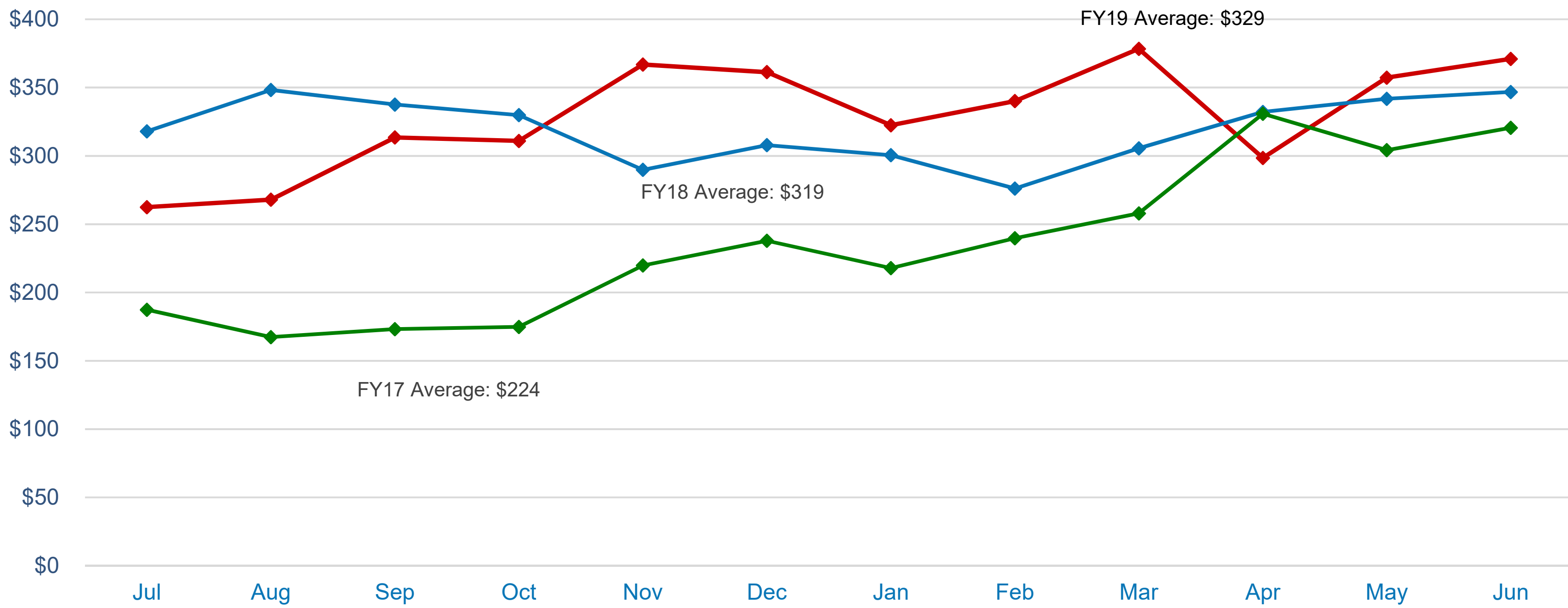
Implied amortisation estimation under AASB9




The Company's asset valuation model can accurately predict the amortisation for each cohort of purchased debt. Actual amortisation will be impacted by how closely actual cash receipts match the model.

# Continuing to find ways to be more efficient and competitive

Lion Finance: PDL collections per FTE hour




- Having right sized and improved the Collection team we are now able to generate higher Cash Collections from a smaller Employee cost base.
- The Group finished the period with 921 employees including 135 employees in the Philippines.

GROUP STRUCTURE

# Diversified business model

## Purchased debt ledger (PDL)

Businesses include:

- Lion Finance
- ThinkMe Finance
- Safe Horizons
- RML (NZ) Limited

Lion Finance is the Group's purchased debt entity, responsible for the collection of PDLs the Group buys from Australian & NZ credit providers.

## Collection Services segment

Businesses include:

- Collection House Limited (including NZ and Philippines)
- CLH Lawyers
- Midstate CreditCollect
- Collective Learning and Development
- CLH Business Services

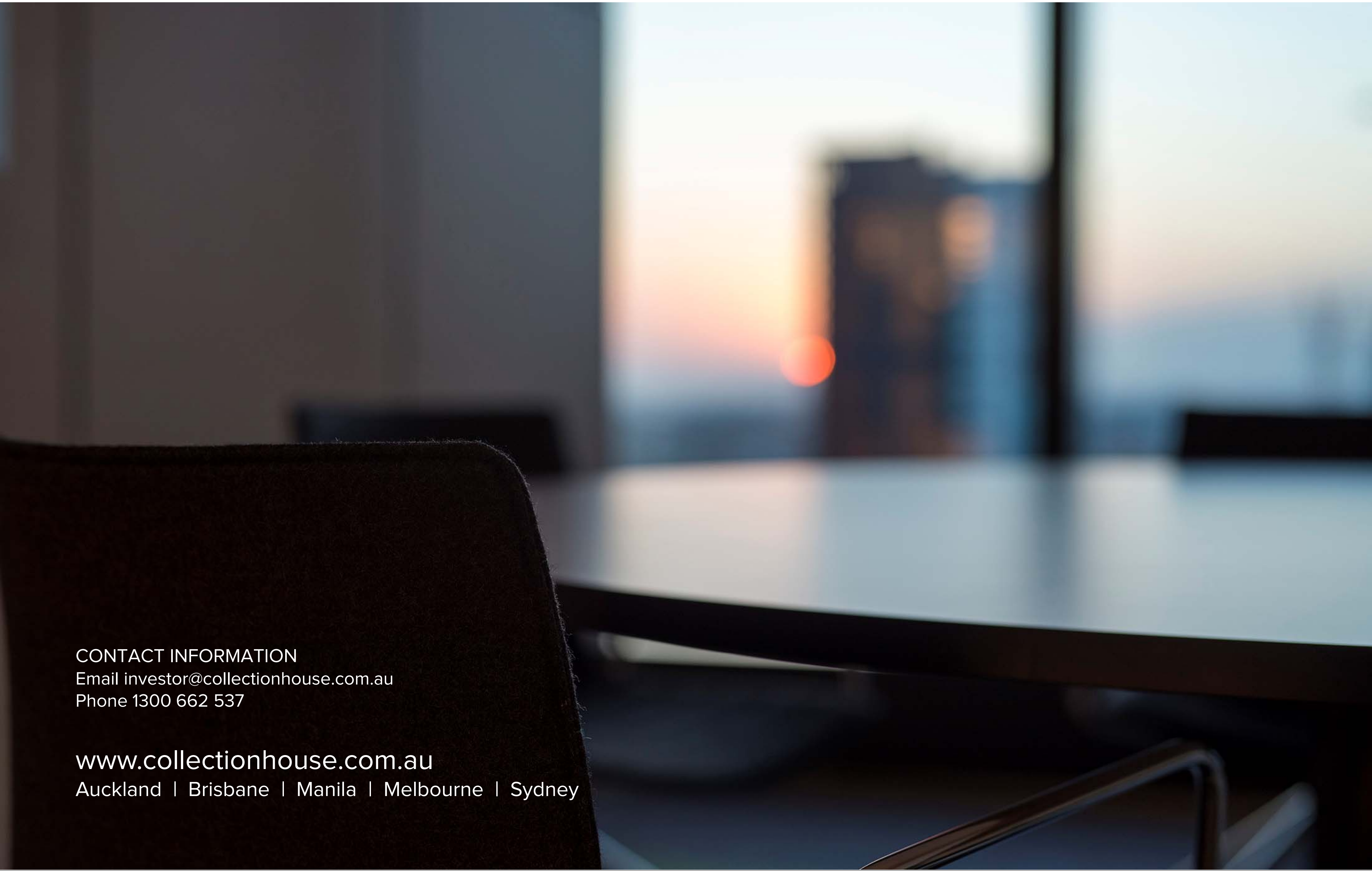
The Collection Services segment is made up of a number of brands, providing services to businesses, Government organisations and individuals.

## Group support services

Operations include:

- Finance
- Human Resources
- Technology
- Risk management & compliance
- Analytics

Operations within the Collection House Group are supported by a number of specialist support services.



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