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# Collection House Group

1H19 Results presentation

## Collection House Limited

February 2019



1H19 Results Presentation

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# 1H19 REVIEW

## Company summary

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### FINANCIAL SUMMARY (CLH.ASX)

Share price (25 February 2019)	\$1.40
Shares on issue	138.2 million
Options	0.0 million
Market Capitalisation	\$193.4 million
Cash	\$5.9 million
Drawn Debt (31 December 2018)	\$153.0 million
Enterprise Value	\$340.6 million

### BOARD AND SENIOR MANAGEMENT

Leigh Berkley	Independent Chairman
Anthony Rivas	Managing Director & CEO
Michael Knox	Indep. Non-executive Director
Sandra Birkensteigh	Indep. Non-executive Director
Catherine McDowell	Indep. Non-executive Director
Kristine May	Company Secretary & CFO
Jonathon Idas	Chief Legal Officer
Anand Adusumilli	Chief Data Scientist
Denica Saunders	Chief Operating Officer



Debt collection services and receivables management for third parties



Debt purchasing and recovery



Legal services including insolvency administration



Nationally recognised training provider in financial services and leadership



Customer service outsourcing for third parties



Licensed specialist finance broker for the provision of credit



New Zealand supplier of receivables and debt management.

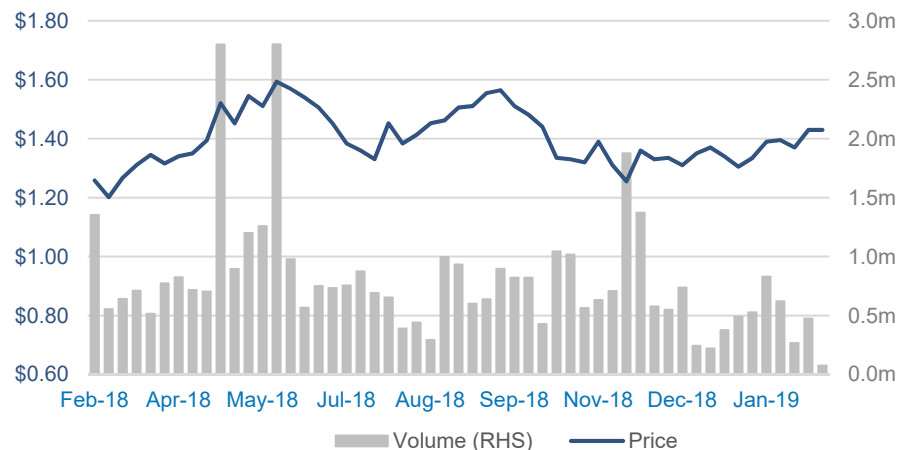


Tailored debt collection services, specialising in Local Government



Provision of financial hardship services for third parties

### PRICE & VOLUME (WEEKLY)



## 1H19 ACHIEVEMENTS

### Continued progress thanks to our investment in productivity and analytics

- Group revenue of \$66.0 million, (1H18: \$63.4m) up 4% on pcp. Normalised Group EBIT of \$15.9m was up 6% on pcp.
- The Purchase Debt Ledger segment reported revenue of \$34.0 million, up 12% on 1H18. An improved margin lifted the Segment EBIT contribution by 18% to \$14.7m (1H18: \$12.4m).
- Active repayment Arrangements continued their uptrend to \$431 million from \$320 million at the end of 1H18. We expect this improvement to continue.
- Collection Services reported revenue of \$32.2m which was down 3% on 1H18. Once again some client revenue was deferred in the first half which led to a weak seasonal period.
- Segment EBIT fell 8% to \$5.0m (1H18: \$5.5m) with the Royal Commission impacting demand during the period. We expect a much improved 2H19 and to report divisional profits for the full year in line with FY18.
- Equity Investment of \$8.5 million in Volt Corporation Ltd (Volt), the holding company of Australia's first digital bank, Volt Bank Ltd (Volt Bank)
- Acquisition of New Zealand-based Receivables Management (NZ) Limited ("RML") for a total cash consideration of NZ\$14.1m (approx. A\$13.4m)
- We have increased our PDL purchase guidance by approximately 12% (midpoint) to \$87-92m a record for the group.
- Our FY19 guidance is maintained: EPS of 15.2¢ps-15.5¢ps or 19.2¢ps-19.5¢ps including the PEP.
- The first half dividend of 4.1¢ps represents a small improvement on pcp ( 1H18: 3.9¢ps) and the DRP is once again available to shareholders at a 2.5% discount.

## 1H19 RESULTS SUMMARY

### PDL growth good, partially offset by Collection Services

Year to June (\$m)	1H17	1H18	1H19	Δ% pcp
Reported (post reallocation)				
PDL Cash Collections	52.5	50.6	55.1	9.1%
Amortisation of PDL	(20.0)	(20.2)	(21.1)*	4.4%
Collection Services Revenue	33.4	33.1	32.2	-2.7%
Unallocated	0.2	(0.0)	(0.3)	n/a
<b>Total Revenue</b>	<b>66.0</b>	<b>63.4</b>	<b>66.0</b>	<b>4.1%</b>
EBITDA	36.9	36.9	38.8	5.0%
Net Profit After Tax	8.2	8.2	8.5	3.3%
EPS (cents)	6.1	6.1	6.2	2.1%
Dividend (cents)	3.9	3.9	4.1	5.1%
Normalised				
Normalised EBITDA	37.1	37.4	39.1	4.5%
Normalised Net Profit After Tax	8.8	8.6	8.7	2.0%
Normalised EPS (cents)	6.5	6.3	6.4	0.8%

This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – see **Appendix & Glossary for details**.

- We enjoyed 9% growth in PDL Cash Collections in the period and this translated in to 4% Group Revenue growth which was offset by a lower contribution from Collection Services.
- PDL Collections are expected to improve in 2H19 and we expect an additional contribution from the Portfolio Enhancement Programme (“PEP”).
- EBITDA was up 5% on pcp and our expectation is for this rate to improve in 2H19.
- Normalised EPS were marginally higher despite the headwind in the Collections Services segment, which was down on pcp, but likely to be flat for the full year.
- The mid-point of our current guidance for the Full Year envisages EPS growth of approximately 6% in the second half.

\* With the full adoption of AASB 9 there is no longer an amortisation charge. We have included it for the purpose of comparisons. The 1H19 number represents an implied amortisation amount only.

## EARNINGS RECONCILIATION

### Growth solid, but more to come

Year to June (\$m)	EBIT				NPAT			
	1H17	1H18	1H19	Δ%	1H17	1H18	1H19	Δ%
Reported (post reallocation)	15,050	14,546	15,523	6.7%	8,189	8,231	8,499	3.3%
ADD: Restructuring costs	150	485	0	n/a	105	340	0	n/a
ADD: Other one off costs	0	0	347	n/a	0	0	243	n/a
ADD: CHIBI & NZ Tax adj.	0	0	0	n/a	501	0	0	n/a
Normalised	15,200	15,031	15,870	5.6%	8,795	8,571	8,742	2.0%

- We enjoyed good progress in Lion Finance (PDLs) but Collections Services' clients experienced some challenges which were temporary headwinds to our growth. We are confident of both divisions' ability to deliver sustained growth in the future.
- Normalised EBIT growth of 6% on pcp in the period despite the slow performance from Collection Services.
- We incurred one-off costs of \$0.35m in the half from the expensed costs of M&A activities, additional AGM costs and other legal expenses.
- Overall NPAT growth was 2% with higher interest costs offsetting EBIT growth.
- We envisage a stronger growth in 2H19 with the FY19 EPS guidance equating to approximately 6% growth based on the middle of the range, excluding a contribution from the Portfolio Enhancement Programme (PEP).

This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – see [Appendix & Glossary for details](#).

## BALANCE SHEET

### Gearing steady and room for expansion

Year to June (\$m)	1H17	2H17	1H18	2H18	1H19	Δ%
Cash	3.7	1.2	0.3	0.5	5.9	
Purchased debt ledgers	59.0	47.3	54.9	52.7	53.0	
Other	11.2	12.4	15.3	22.0	21.7	
<b>Current Assets</b>	<b>74.0</b>	<b>60.9</b>	<b>70.5</b>	<b>75.1</b>	<b>80.5</b>	<b>7%</b>
Purchased debt ledgers	212.1	236.3	245.6	259.2	273.2	
Intangibles	37.7	36.3	35.7	34.0	33.8	
Other	3.0	4.4	3.6	2.6	2.4	
<b>Non Current Assets</b>	<b>252.8</b>	<b>277.1</b>	<b>284.9</b>	<b>295.8</b>	<b>309.4</b>	<b>5%</b>
Borrowings	0.0	0.0	10.6	2.6	0.0	
Other	17.4	17.3	19.4	23.1	19.7	
<b>Current Liabilities</b>	<b>17.4</b>	<b>17.3</b>	<b>30.0</b>	<b>25.7</b>	<b>19.7</b>	<b>-23%</b>
Borrowings	118.2	123.2	125.0	131.9	153.0	
Other	6.3	8.9	8.4	6.8	6.0	
<b>Non Current Liabilities</b>	<b>124.5</b>	<b>132.1</b>	<b>133.4</b>	<b>138.7</b>	<b>159.0</b>	<b>15%</b>
<b>Net Assets</b>	<b>184.8</b>	<b>188.6</b>	<b>192.0</b>	<b>206.6</b>	<b>211.3</b>	<b>2%</b>
Net borrowings/PDL carrying value %	42.2%	43.0%	45.0%	43.0%	45.1%	
Gearing (ND / ND+E)	38.3%	39.3%	41.3%	39.3%	41.1%	

- The Group has facilities of \$175.0m with an additional \$12.5m overdraft.
- At period end had \$153.0m in drawn debt and the undrawn facility headroom was approximately \$40.0m.
- Gearing was steady at 41%.
- We have taken advantage of opportunities in the PDL market but as Cash Collections continue to improve we expect gearing to reduce.
- Our relationship with Balbec provides access to further capital to purchase PDLs. We are discussing a range of opportunities to deploy this capital, with the facility increased from \$50m to \$100m.

## CASHFLOW

We continue to invest for productivity and growth

Year to June (\$m)	1H17	1H18	1H19	pcp Δ%
Cash Collections	90.7	83.9	93.5	11%
Operating expenses	(61.5)	(52.1)	(60.7)	16%
PDL Cash Collections	29.2	31.8	32.8	3%
PDL acquisitions	(26.1)	(35.9)	(36.6)	2%
Capex	(1.3)	(0.6)	(1.8)	202%
Investing cash flow	(27.4)	(36.5)	(38.4)	5%
Net proceeds from borrowings	(0.1)	1.3	21.1	n/a
Net proceeds from equity	(3.9)	(5.3)	(4.2)	-21%
Other	(3.0)	(2.7)	(3.4)	26%
Financing cash flow	(7.0)	(6.7)	13.5	n/a
Change in cash	(5.3)	(11.4)	7.9	n/a
Cash at year end	3.7	0.3	5.9	n/a

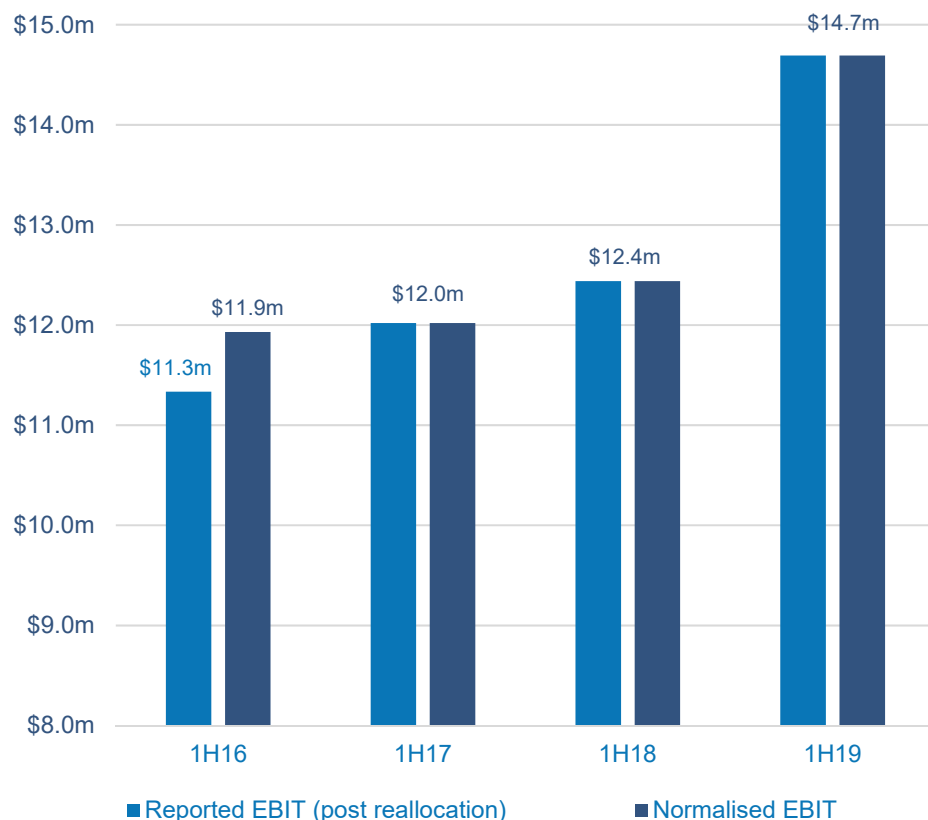
- Group Cash Collections (Lion Finance & Collection Services) increased by 11%.
- Cash Operating Expenses ran ahead of the P&L costs by approximately \$3.5m due to timing differences in some specialist areas where we have invested in additional staffing and these costs will be applied to the P&L at the time of revenue recognition.
- Operating cashflow was 4% higher at \$33.2m.
- The increase in capital expenditure was in part due to investments in Trust & Billing enhancements and software including: Workforce Management, Portal and Artificial Intelligence.
- Over the last 18 months we invested \$117.9m in PDL acquisitions which has been financed with just a \$31.9m increase in Borrowings. This reflects the power of our Portfolio Enhancement Programme, where we are enjoying a rapidly improving Arrangement book (a forward indicator of improving Cash Collections), funded by moving older PDLs off balance sheet rather than taking on additional debt.



## PDL SEGMENT: RESULTS

### Continuing the uptrend in profits

Segment EBIT results (before group overhead)



This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – see **Appendix & Glossary for details**.

- EBIT in the period was \$14.7m a 18% improvement on pcp.
- Despite increased supply, market prices remain competitive, but rational, as reflected in our increased PDL acquisition guidance.
- We continue to recover from low investment in PDL purchases in prior years and Cash Collections are now starting to show the benefits of our improvements.
- As required we have fully adopted AASB 9 from 1 July 2018. AASB 9 replaces AASB 139 'Financial Instruments'. The AASB 9, expected credit loss model is forward looking and replaces the existing incurred loss approach. The move to AASB 9 has had no material impact in 1H19 (Refer to slides 23 to 24 for further information).
- 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 will contribute A\$2.8m EBIT in FY20.
- We continue to be confident about the outlook for growth in this division for 2H19 and beyond.

LION FINANCE – PDL SEGMENT: OPERATIONAL

Arrangement book growing in volume and quality

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

A record result

- Our increased investment in PDLs has lifted the scale of our overall book but we are also enjoying an increase in the quality.
- Average loan balances are now over \$7,000, and over \$8,600 for our Arrangement book.
- Total funds under Arrangement has increased to a record of \$431m a 35% increase over the last 12 months.
- The improving trends reflect both better PDL purchasing and our success at helping customers with affordable long term repayment plans that better reflect the customer’s ability to repay and are predicted to generate higher returns on our invested funds.

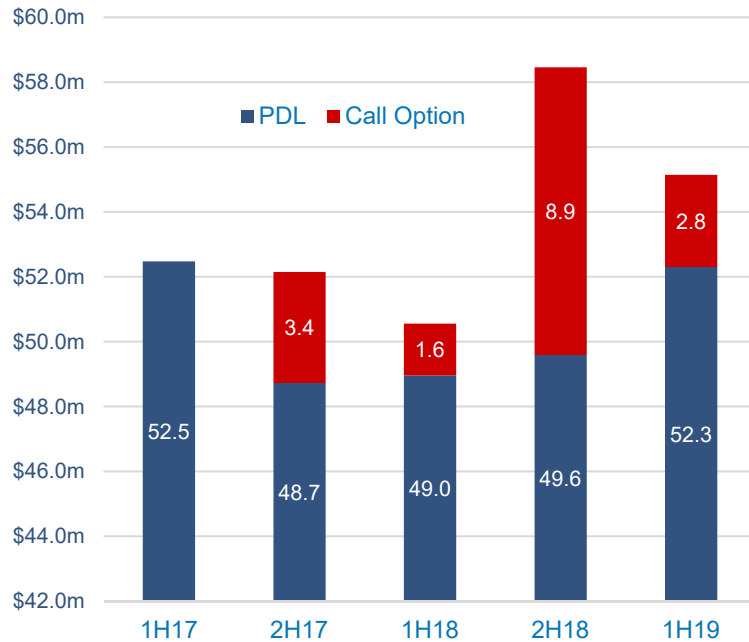
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LION FINANCE - PDL SEGMENT: POSITIVE TRENDS

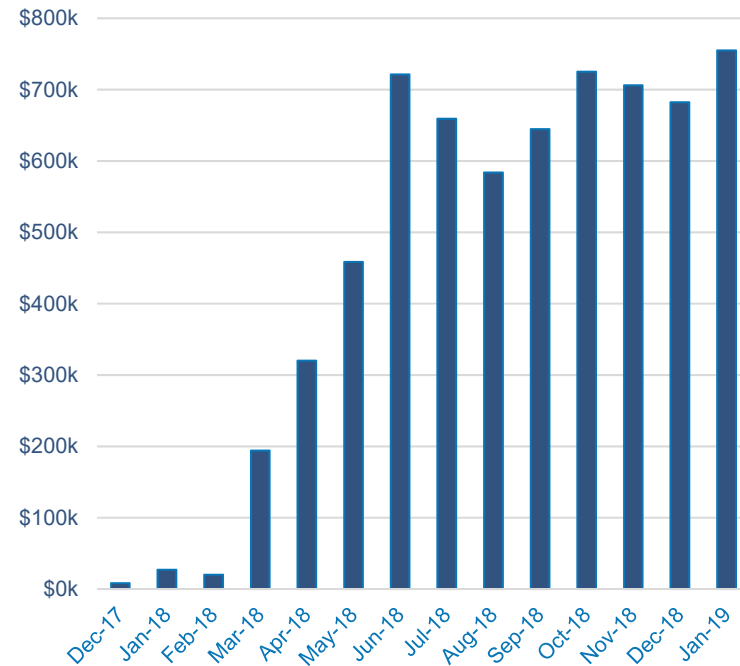
Better collections methodologies and PDL purchasing now coming through

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PDL Collections by source



Online Self-serve Portal Monthly Collections



- Core Cash Collections showed solid improvement and we recorded \$113.6m in the last 12 months.
- We expect further improvement in 2H19 both from core business and from the revenue contribution from RML.

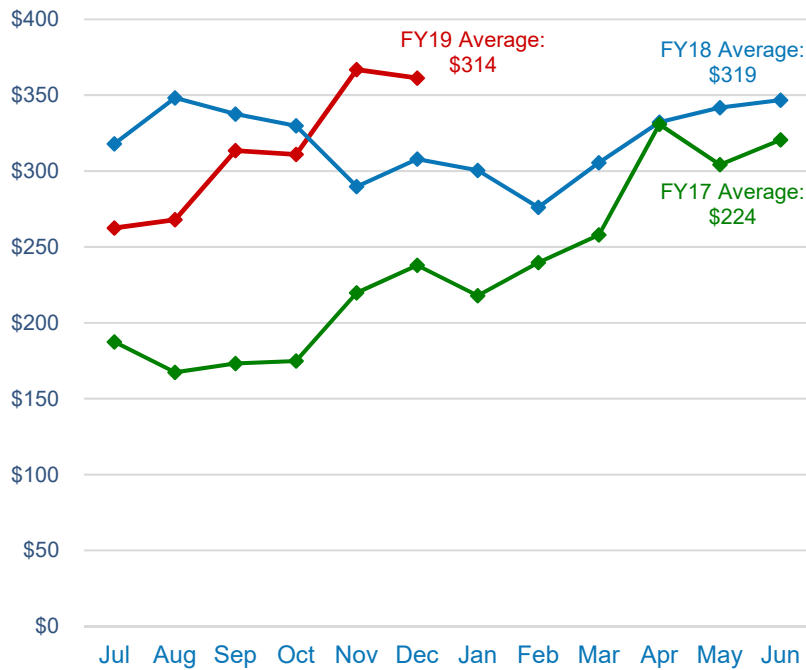
- Our online self-service Portal, launched in December 2017 has provided a consistent source of Collections and accounted for 7% of all Collections during 1H19.
- We continue to invest in advancing the product including new humanlike avatars soon to be launched: <https://vimeo.com/319397077>

OPERATIONAL EFFICIENCY

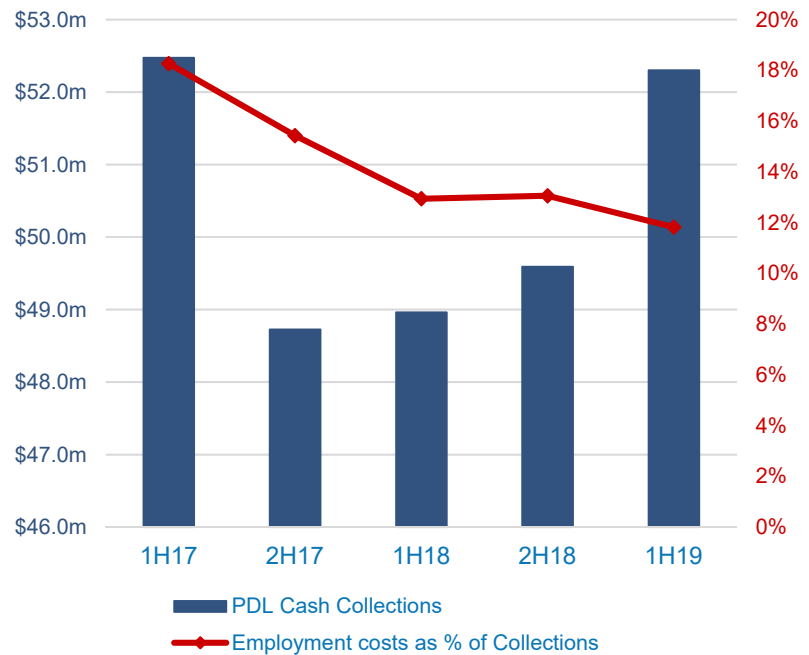
Continuing to find ways to be more efficient and competitive

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Lion Finance: PDL collections per FTE hour



Lion Finance: Employee costs vs. Collections

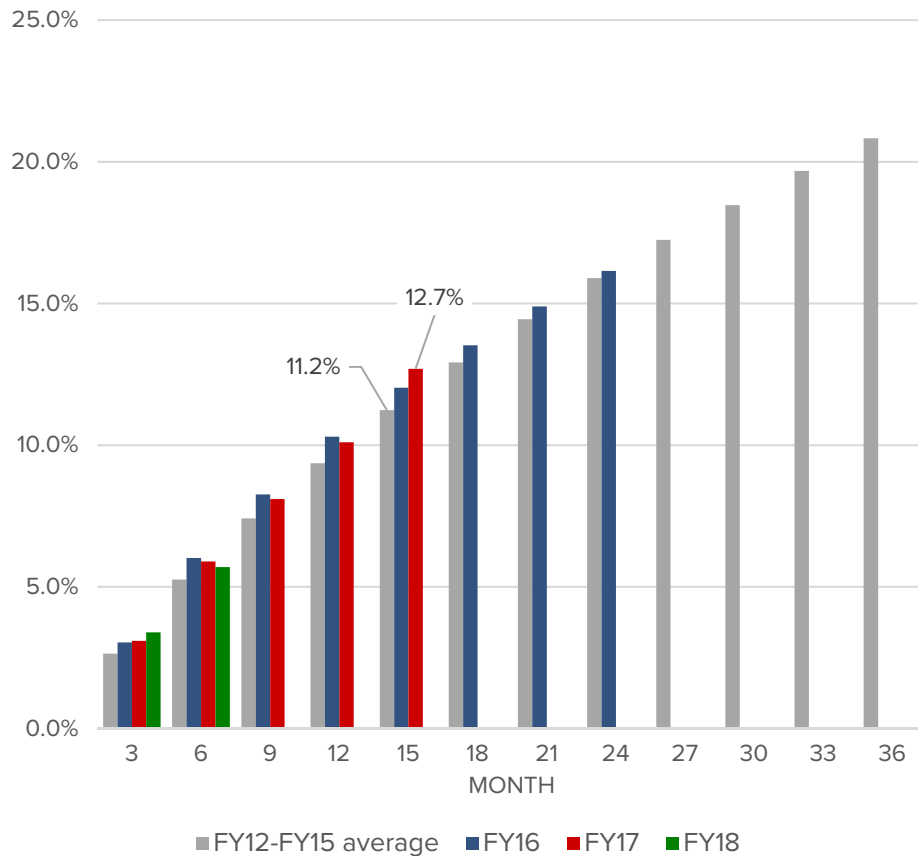


- Within Lion Finance we have seen our Employee Cost to Cash Collected fall from 18% in 1H17 to 12% in 1H19.
- Having right sized and improved the Collection team we are now able to generate higher Cash Collections from a smaller Employee cost base.
- The group finished the period with 672 domestic employees (and 94 in the Philippines), versus 662 at the end of 1H18.

Continued improvement in recoveries

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Cumulative Liquidation by Purchase Vintage as % of Face Value



- More recent vintages continuing to perform better compared to FY15 and prior periods
- The FY17 cohort recoveries are now meaningfully better than earlier cohorts (see percentage on chart).
- We now expect to recover 100% of our initial PDL purchase cost within 30-36 months of purchase.
- By moving customers on to Arrangements we expect to recover a higher return over the life of the portfolios.

## LION FINANCE – PDL SEGMENT: PURCHASING

### FY19 will represent a record for PDL purchasing

PDL purchase pipeline



A record result

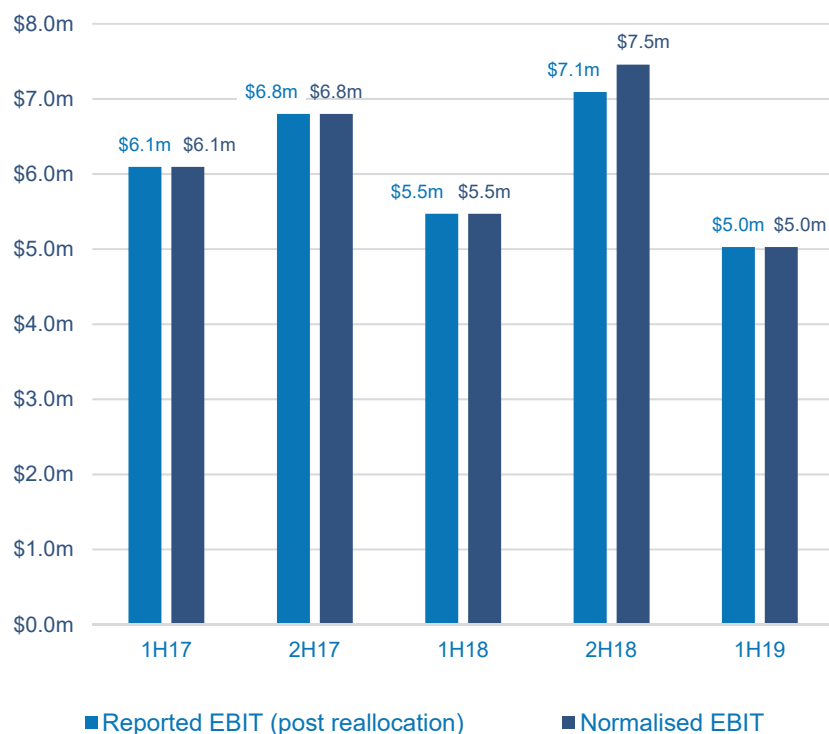
NEW Guidance  
\$87m - \$92m

- The market for PDL purchases remains competitive and supply from banks remain above trend due to changed provisioning requirements under AASB 9.
- We are gaining additional access to PDLs via expansion of forward flow agreements.
- We have considerable balance sheet capability to take advantage of opportunities in the market.
- With the acquisition of RML we have now committed approximately \$78m to PDL acquisitions in FY19.
- We have increased our PDL purchase guidance to \$87-92m (from \$80m) to reflect our ongoing success in the market and the purchase of RML.

## COLLECTION SERVICES: RESULTS

Another slow start to the year, but we are confident of a stronger second half

Segment EBIT results (before group overhead)



This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – see **Appendix & Glossary** for details.

- For the second year running we have seen an unseasonably low contribution from Collection Services in the first half.
- The half was impacted by:
  - Technical delays with a key client moving to new recovery systems.
  - Banking and finance clients reviewing collection procedures and governance oversight ahead of Royal Commission report.
- Like last year we expect the second half to show a marked improvement and expect the full year results to be in line with FY18.
- Businesses within segment:
  - Collection House Limited (including NZ, Government Services and Philippines)
  - CLH Lawyers
  - Midstate CreditCollect
  - Collective Learning and Development
  - CLH Business Services

## COLLECTION SERVICES: VOLT BANK INVESTMENT

### A symbiotic relationship with huge potential

- Equity Investment in Volt Corporation Ltd (Volt), the holding company of Australia's digital bank, Volt Bank Ltd (Volt Bank) of \$8.5 million
- Headquartered in Sydney, with 100 employees, the bank was founded by Steve Weston and Luke Bunbury. Volt Bank was granted a full licence to operate as an ADI on 22 January 2019.
- We are expecting to deliver \$3m in EBIT from the relationship in FY20 with products and services to be announced later this year.

#### PEOPLE



- Collection House professionals to provide support and expertise for product development and joint initiatives

#### PROCESS



- Leverage CLH Comprehensive Credit Reporting experiences
- Collaboration and innovation for new product development

#### TECHNOLOGY



- Leverage the C5 software universe
- Full use of CLH data science technologies and personnel
- Shared Artificial Intelligence learnings and applications





## EXECUTING THE BUSINESS PLAN

Phases 1, 2, 3 and 4 complete, on course for Phase 5, new targets for Phase 6

### Phase 1 & 2 Complete

- ✓ Completed cost saving
- ✓ Improved PDL pricing strategies
- ✓ New call centre technology
- ✓ Completed Manila transformation
- ✓ Secured first clients for CLH Business Services
- ✓ Secured first clients for Safe Horizons
- ✓ Implemented new staff training
- ✓ Cost savings identified and achieved

### Phase 3 & 4: Complete

- ✓ Leverage existing capabilities into new verticals
- ✓ Achieve further diversification and income streams
- ✓ Collections per hour \$225+
- ✓ Sophisticated PDL reporting and purchase modeling – amortisation at a prudent 46%
- ✓ Transform CLH into an analytics driven organisation - integrating machine learning
- ✓ Next stage evolution of call centre strategy and leverage offshore facilities
- ✓ Portal and C5 – marketing products to current and new clients

### Phase 5: July 2018 onwards

- ✓ Drive productivity and collections effectiveness such as gamification and call monitoring to text
- ✓ Continue to evolve the portal as a distinct revenue line in pursuit of omni-channel contact centre
- ✓ Continue to fully implement predictive analytics into the business
- ✓ Invest in reg-tech to navigate the changing finance landscape and drive best practice in compliance and customer advocacy e.g. Comprehensive Credit Reporting, Portal, Kara Portal Education Programmes
- ⌚ Continue to refine the CLH capital management strategy and strengthen ROE.

### Phase 6: Jan 2019 onwards

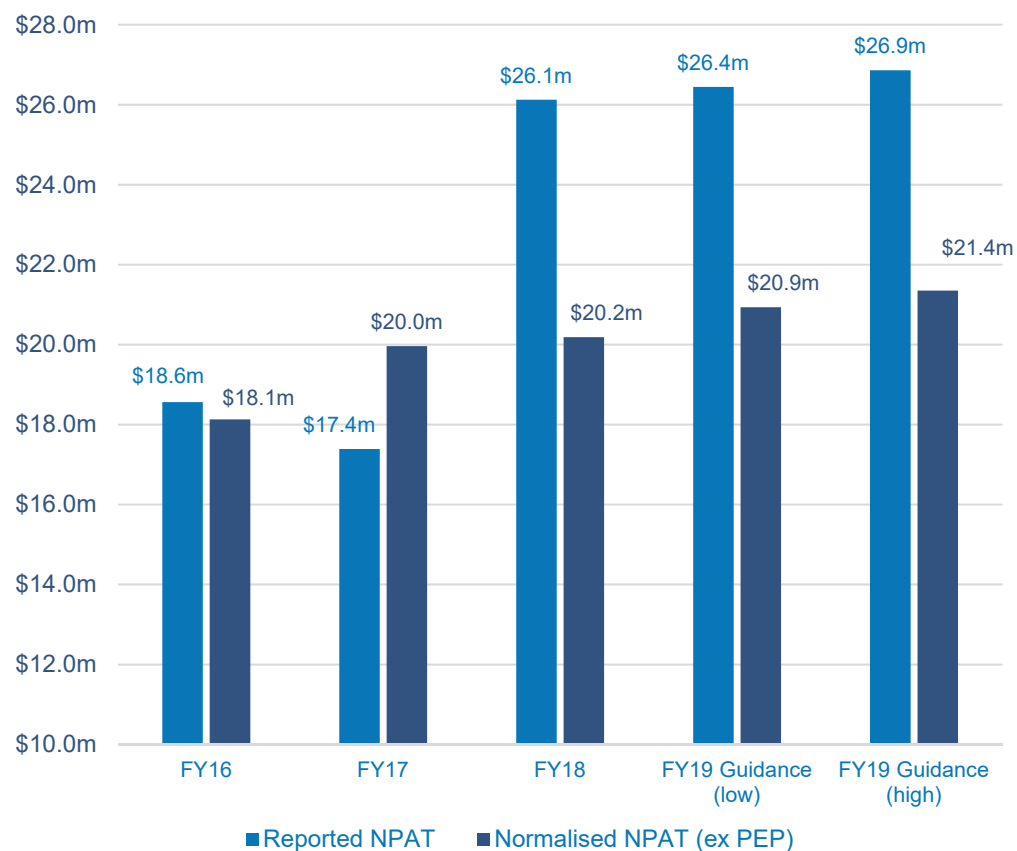
- ⌚ Volt – exploring new products and services to be released before end of 2019.
- ⌚ Kash AI pilot use before the end of FY19
- ⌚ Explore additional M&A opportunities in Australia and New Zealand
- ⌚ RML (NZ) synergies to be captured by end of 2019

## GROUP OUTLOOK

### Starting to deliver on our investments

- Much of the infrastructure for growth is now in place:
  - We manage accounts from all the major banks.
  - We are more accurately assessing and bidding for PDL books.
  - We have built a better team of collectors and better systems to support them.
  - We are enjoying improved collections both per staff hour and in aggregate.
  - We have increased our access to capital to fund our purchasing.
- We expect to announce additional PEP transactions annually at the level recorded in FY18.
- The outlook for the PDL purchasing industry remains reasonably attractive and we have increased guidance to \$87-92m, a record year for CLH.
- Our FY19 guidance is for EPS of 15.2¢ps-15.5¢ps or 19.2¢ps-19.5¢ps including PEP.
- We expect restructuring cost in NZ to offset the contribution from RML in FY19 but expect at least \$2.5m EBIT in FY20.

Group NPAT trends



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# Appendix & Glossary of Terms

## GLOSSARY OF TERMS

### Industry lingo and financial terminology

#### INDUSTRY TERMS USED IN THIS REPORT

- **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](http://www.aasb.gov.au/admin/file/content105/c9/AASB9_12-14.pdf) (Refer to slides 23 to 24).
- **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)** - Digital 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 IN THIS REPORT

- **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.

## HISTORICAL RECONCILIATION: 1

### Segment reallocation reconciliation

Year to June (\$'000)	Revenue (Reported)							EBIT (Reported)						
	1H16	2H16	1H17	2H17	1H18	2H18	1H19*	1H16	2H16	1H17	2H17	1H18	2H18	1H19*
<b>Reported pre-reallocation</b>														
Lion Finance	36,302	38,337	32,306	32,488	30,328	44,674	34,030	12,119	17,178	13,013	15,667	12,440	24,255	14,693
Collection Services	28,245	29,664	33,577	34,899	33,112	35,926	32,230	4,963	4,038	4,960	5,837	5,471	7,093	5,027
Unallocated	5	141	157	-9	-13	-164	-254	-2,610	-3,557	-2,923	-5,440	-3,365	-2,521	-4,197
<b>Total</b>	<b>64,552</b>	<b>68,142</b>	<b>66,040</b>	<b>67,378</b>	<b>63,427</b>	<b>80,436</b>	<b>66,006</b>	<b>14,472</b>	<b>17,659</b>	<b>15,050</b>	<b>16,064</b>	<b>14,546</b>	<b>28,827</b>	<b>15,523</b>
<b>Reallocation</b>														
Lion Finance	23	25	146	105	0	0	0	-783	-1,057	-993	-964	0	0	0
Collection Services	-23	-25	-146	-105	0	0	0	783	1,057	1,134	964	0	0	0
Unallocated	0	0	0	0	0	0	0	0	0	-141	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Reported (post reallocation)</b>														
Lion Finance	36,325	38,362	32,452	32,593	30,328	44,674	34,030	11,336	16,121	12,020	14,703	12,440	24,255	14,693
Collection Services	28,222	29,639	33,431	34,794	33,112	35,926	32,230	5,746	5,095	6,094	6,801	5,471	7,093	5,027
Unallocated	5	141	157	-9	-13	-164	-254	-2,610	-3,557	-3,064	-5,440	-3,365	-2,521	-4,197
<b>Total</b>	<b>64,552</b>	<b>68,142</b>	<b>66,040</b>	<b>67,378</b>	<b>63,427</b>	<b>80,436</b>	<b>66,006</b>	<b>14,472</b>	<b>17,659</b>	<b>15,050</b>	<b>16,064</b>	<b>14,546</b>	<b>28,827</b>	<b>15,523</b>

\* Change to AASB 9 recognition policy

## HISTORICAL RECONCILIATION: 2

### Normalisation adjustments

Year to June (\$'000)	EBIT							NPAT						
	1H16	2H16	1H17	2H17	1H18	2H18	1H19*	1H16	2H16	1H17	2H17	1H18	2H18	1H19*
<b>Reported (post reallocation)</b>	14,472	17,659	15,050	16,064	14,546	28,827	15,523	8,315	10,247	8,189	9,198	8,231	17,892	8,499
LESS: Profit on Balbec	0	0	0	0	0	-9,562	0	0	0	0	0	0	-6,693	0
LESS: Profit on PDL sale	0	-4,075	0	0	0	0	0	0	-2,853	0	0	0	0	0
ADD: Relocation costs	0	2,234	0	0	0	0	0	0	1,564	0	0	0	0	0
ADD: Restructuring costs	1,673	-450	150	47	485	597	0	1,171	-315	105	33	340	418	0
ADD: M&A and Other	0	0	0	0	0	0	347	0	0	0	0	0	0	243
ADD: C5 Software write off	0	0	0	2,497	0	0	0	0	0	0	1,748	0	0	0
ADD: CHIBI & NZ Tax adj.	0	0	0	0	0	0	0	0	0	501	190	0	0	0
<b>Normalised</b>	<b>16,145</b>	<b>15,368</b>	<b>15,200</b>	<b>18,608</b>	<b>15,031</b>	<b>19,862</b>	<b>15,870</b>	<b>9,486</b>	<b>8,643</b>	<b>8,795</b>	<b>11,169</b>	<b>8,571</b>	<b>11,617</b>	<b>8,742</b>

\* Change to AASB 9 recognition policy

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## ACCOUNTING CHANGES

### AASB 9 – the forward looking ‘expected credit loss’ model

- AASB 9 Financial Instruments (“AASB 9”) addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
- This standard replaces AASB 139 Financial Instruments: Recognition and Measurement.
- AASB 9 replaces the ‘incurred loss’ model in AASB 139 with an ‘expected credit loss’ (“ECL”) model.
- ECLs are measured as the present value of all future cashflows i.e. the difference between the cashflows due to the entity in accordance with the contract and the cashflows that the Group actually expects to receive based on practical experience of working on the accounts and exogenous factors such as economic conditions.
- The Group measures ECLs at an amount equal to lifetime expected credit losses and these are incorporated into the calculation of the Effective Interest Rate (“EIR”).
- Where the balance sheet carrying amount is different from the Present Value of the estimated future cashflows (discounted at the asset’s original EIR), the Group recognises an impairment gain or loss through the P&L, which is then applied to the balance sheet as a positive or negative provision.
- The attraction of this model is that it will more readily adjust the gross carry value of our PDL portfolio to the actual expected cash return, versus the previous method which simply adopted the original valuation based on expectations at the time of purchase.
- CLH will provide disclosure on any provisions (losses or gains) recognised through the P&L to provide full transparency.
- In our first period of adoption (1H19) no adjustments have been necessary.

## ACCOUNTING CHANGES

### AASB 9 – CLH Preparation for AASB 9 in 2017 - 2018

- Preparation started in summer of 2017 with the CLH Valuation Asset Methodology Model (VAM) – an account level expected future value model.
- The estimation of ECL's includes an assessment of forward-looking economic assumptions which are determined on a probability-weighted basis.
- CLH has been proactively relaying the probable impacts of the new accounting standard AASB 9 to the market and industry.
- CLH has worked proactively with KPMG to obtain real time assurance

#### Illustrative Example of AASB 9 accounting

	Cashflow		
	Cash received	Interest revenue	Principal repayment
Investment year 0	-\$100.0		
Return in year 1	\$40.0	\$19.8	\$20.2
Return in year 2	\$35.0	\$14.2	\$20.8
Return in year 3	\$30.0	\$11.6	\$18.4
Return in year 4	\$30.0	\$8.0	\$22.0
Return in year 5	\$25.0	\$3.7	\$21.3
<b>Total return</b>	<b>\$160.0</b>	<b>\$57.3</b>	<b>\$102.7</b>
EIR	20%		

Balance Sheet					
Asset Value at start	Principal repayment	Asset Value at end	Impairment gain/loss in period	Carry Value of Provisions	Net Asset Value
		\$100.0			
\$100.0	-\$20.2	\$79.8	\$0.0	\$0.0	\$79.8
\$79.8	-\$20.8	\$58.9	-\$8.0	-\$8.0	\$50.9
\$58.9	-\$18.4	\$40.6	\$0.0	-\$8.0	\$32.6
\$40.6	-\$22.0	\$18.6	\$10.0	\$2.0	\$20.6
\$18.6	-\$18.6	\$0.0	\$2.7	\$4.7	\$4.7
<b>\$100.0</b>	<b>-\$100.0</b>	<b>\$0.0</b>	<b>-</b>	<b>\$4.7</b>	<b>\$4.7</b>

P&L		
Interest revenue	Impairment gain/loss in period	Total Revenue
\$19.8	\$0.0	\$19.8
\$14.2	-\$8.0	\$6.2
\$11.6	\$0.0	\$11.6
\$8.0	\$10.0	\$18.0
\$3.7	\$2.7	\$6.4
<b>\$57.3</b>	<b>\$4.7</b>	<b>\$62.0</b>

Worked example assuming dynamic provisioning (-\$8 impairment loss followed by +\$10 impairment gain) reflecting changes in estimated recoverable value during the investment period.



## GROUP STRUCTURE

### Diversified business model



#### Purchased debt ledger (PDL)

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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

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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

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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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