ASX ANNOUNCEMENT

31 August 2020

Market Announcement Officer
Australian Securities Exchange Limited
Level 4 Stock Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Collection House Limited (ASX Code: CLH) – Appendix 4E Preliminary Final Report

Collection House Limited (**"**the **Company** or "the **Group**") (ASX: CLH) today released its Appendix 4E Preliminary Financial Report for the year ended 30 June 2020 (unaudited).

Un-Audited Results

- Statutory loss after tax: $44.3 million (FY19: Net Profit after tax $30.7 million)
- Underlying profit after tax: $16.2 million (FY19: Underlying profit after tax $21.7 million)
- Statutory loss per share: 31.2 cents (FY19: Earnings per share 22.3 cents)
- Shareholders' equity: $172.8 million (30 June 2019: $229.1 million)
- Collection Services Revenue: $65.3 million (FY19: $67.6 million)
- Purchase Debt Ledger Revenue: $80.3 million (FY19: $93.7 million)
- Net Debt: $205.2 million (30 June 2019: $209.0 million)

The Company has elected to report unaudited preliminary financial results for the year ended 30 June 2020, with final audited results expected to be reported by 30 September 2020 in accordance with ASX requirements. The unaudited preliminary accounting loss for the year ended 30 June 2020 is $44.3 million.

This result is before any financial impacts that may arise from the impending completion of the refinancing process, but includes the $89.9 million impairment adjustment to the Company's purchased debt ledger ("PDL") assets recognised at the half-year. Underlying financial performance[1] for the year ended 30 June 2020 of $16.2 million is in line with previous announcements.

The result is lower than the previous corresponding period and was adversely impacted by the wider economic effects of COVID-19 which influenced service fee income and cash collections from the Company's PDL assets. New debt purchasing opportunities were also limited during the twelve months, in line with a more conservative approach to debt sales applied by banks and other clients during the COVID-19 period. Although the Company's economic performance for the period was subdued, the Company has executed significant strategic change initiatives across the entire business, which will position the business for sustainable growth moving forward.

As previously reported, trading in the Company's shares remains suspended while the Company continues to advance its refinancing process which is scheduled to be completed by 30 September 2020, unless extended. The Company expects to finalise a refinancing solution and enter into binding contracts with counterparties to achieve that outcome shortly. The finalisation of a refinancing transaction post year end, may require the Company to reassess the presentation of its assets and liabilities as at 30 June 2020 and for this reason the final audited financial statements may vary from the unaudited preliminary financial results.

The underlying financial results which reflect the true economic performance of the business will not be impacted by any accounting adjustments associated with the refinancing process. Furthermore, when the audited results for the year ended 30 June 2020 are released, they are not expected to be subject to a modified audit opinion.

1. Underlying financial performance is after-tax profit for the impact of asset sales, impairment adjustments against the carrying value of the Company's PDL assets taken in the first half of FY2020 and non-recurring costs associated with advisor fees paid in respect of the refinancing process.

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1. Underlying financial performance for the year ended 30 June 2020

Underlying net profit after tax was $16.2 million in line with previous announcements. The business generated net operating cash flow for the year of $65.3 million which is consistent with weaker accounting earnings when compared against the previous corresponding period. Gross performance from the Company's PDL assets was down on prior year, consistent with overall industry trends observed during the COVID-19 period.

1.1 Collection Services

Collection Services revenue was down 3.4 percent on prior year. This was due to a variety of factors including changes in the Company's client base and clients acting more conservatively around the outsourcing of receivables management subsequent to quarter three of the financial year. New service opportunities have arisen during Q4 however, particularly in respect of supporting customers exhibiting signs of vulnerability and hardship. Notwithstanding the difficult economic conditions, the Company used the period to refine its client and customer service offerings and carefully re-evaluate its cost model. The Company is well positioned to support new and existing clients to manage their customers in what the Company expects will be a continually challenging operating environment.

1.2 Purchased Debt (Lion Finance)

The PDL business reported net interest income of $80.3 million, down 14.3 percent on the previous corresponding period. While cash receipts from the Lion Finance customer base were adversely impacted by COVID-19, significant changes have been made to improve the effectiveness and sustainability of our operational collection strategy. In particular, this included a reduction in legal activity which was a critical action identified from the Strategic Review undertaken by the Company following the change in Chief Executive Officer in November 2019.

As reported in conjunction with the half-year result to 31 December 2019, these changes in collection strategy have resulted in a change to the quantum and timing of future cashflow from the Company's PDL assets. In accordance with the requirements of AASB 9, the Company recognised an $89.9 million pre-tax adjustment to the value of its PDL assets to reflect the net present value impact of the changed cash collection profile.

While this reflected a significant reduction in accounting value, it is more reflective of a sustainable cash collection profile with reduced reliance on legal activity.

1.3 Cost Structure

Direct costs exhibited only a minor increase year on year, reflective of continually improving operating initiatives and system efficiencies. Employee costs were up on the prior year. Maintaining a competitive cost to collect in both the Collection Services and Lion Finance business units remains of paramount strategic importance to the Company and a comprehensive cost review program has been commenced as a follow-on action arising from the Strategic Review.

2. Actions from the Strategic Review

The Strategic Review identified that in addition to implementing an appropriate financing solution to support future growth, the Company would benefit from:

- refining its value proposition by ensuring that delivering the right customer outcome was the guiding principle which underpinned all organisational activities;
- continuing to enhance its governance framework to provide the highest level of assurance around ethical behaviour and regulatory compliance to its clients and customers; and
- simplifying its business activities to focus on being the first choice in receivables management services through superior insight, innovation and customer care

This revised strategy was driven by wider industry feedback from the Royal Commission, coupled with a strong desire to do the right thing for our customers going forward.

In the last six months, our client and customer engagement approach has fundamentally changed, particularly in the Lion Finance business, and feedback from customers and third-party stakeholder groups has been extremely positive. The Company continues to re-evaluate all aspects of its business from the perspective of the customer and anticipates that this approach will create a deeper level of engagement with new and existing clients moving forward. This will be particularly important as the financial services sector comes to terms with the long term economic and social impacts of COVID-19.

3. Update on refinancing process

The Company has made significant progress in relation to refinancing its current debt and expects to achieve an outcome that is both acceptable to its existing lenders while simultaneously providing a capital solution which will support the Company's revised strategy and future growth aspirations.

The process to identify suitable refinancing partners undertaken by the Company and its advisors over recent months has been exhaustive and underpinned by extensive engagement with approximately eighty highly credible domestic and international counterparties.

4. Dividends and Suspension

The Company's ability to declare and pay dividends remains restricted while the Standstill Agreement with its existing lenders is in place. The Company recognises that in conjunction with the ongoing suspension of trading in the Company's shares this is an incredibly frustrating time for shareholders. The impact of this position on shareholders personal financial circumstances is well understood and the Company is working hard to return to a normal operating position as quickly as possible. The Company remains of the view that the ongoing suspension of its shares is still the most prudent course of action while it finalises a refinancing transaction.

The Company expects that its shares will recommence trading when a binding refinancing transaction is capable of announcement. Post the refinancing transaction being completed, the Company expects that it can recommence an appropriate dividend payment policy.

5. Outlook

The year ended 30 June 2020 has been one of the most challenging in the Company's history, implementing significant change necessitated by a range of internal and external factors. The Company has responded appropriately and the business has proved remarkably resilient during the pandemic. The Company's people have performed with distinction, managing significant commercial and personal disruption with minimal impact to clients and customer service.

COVID-19 has proven that our people, systems and processes are highly flexible and responsive.

The next six months are critical, as we complete the refinancing transaction and continue to work with clients and customers to support them in the continuing COVID-19 environment. There is more work required to execute on the objectives identified from the Strategic Review, but the Company will continue to focus on these fundamental principles as it:

- continues to restructure its business, particularly through the refinancing process, so that it is profitable and capable of playing a leading role in the receivables management services industry;
- implements and maintains a conservative capital structure which supports the Company's growth strategy and allows ongoing participation in the purchased debt sector in a competitive but controlled manner; and
- continues to enhance its client value proposition around the principles of genuine customer care and strong governance in line with the recommendations from the Royal Commission

Receivables management is a people business, with thousands of interactions with customers, many of whom are experiencing financial challenges each and every day. The value of our business and the efficacy of our client and customer value proposition depends on the quality of each and every interaction. In preparing for a post COVID-19 environment our approach to managing customer delinquency and supporting customers experiencing hardship will need to be continuously re-evaluated. CLH has taken the first important steps to reposition its business to help clients and customers respond to that challenge.

We firmly believe the steps we are taking will also benefit shareholders and other stakeholders as we continue to react to these unprecedented times for our sector and for the economy as a whole.

Yours faithfully

Collection House Limited

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