

ASX ANNOUNCEMENT

2 June 2020

Adviser, Listings Compliance
ASX Compliance Pty Ltd
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Collection House Limited (ASX Code: CLH) – Company Update

Collection House Limited (**CLH or Company**) is continuing to progress the matters outlined in its previous announcements on 20 April, 9 April, 17 March and 18 February 2020, and the disclosure released to the market on 16 March 2020.

1. Operational Strategy Update

As previously announced, CLH has been undertaking a comprehensive review of its operating model and collection strategies (“Strategic Review”).

The Group has now completed the Strategic Review, and is implementing a comprehensive change programme driven by a desire to respond to the changing operating environment, the outcomes of the Financial Services Royal Commission, and through listening to feedback from clients and external stakeholders. This has resulted in a more customer-focussed approach, and significantly reduced litigation action across the Group, particularly in respect of purchased debts. These changes have impacted many aspects of how we do business, and are already yielding positive outcomes in the areas of staff engagement, customer service and stakeholder feedback.

The Group has implemented the following strategies to reposition the business. These changes are also ensuring we are much better placed to assist our customers and clients through the challenges of COVID-19:

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| 1. Empower our people | Promote an environment of trust and shared values across the entire business, which will lead to operational efficiencies and improved employee engagement |
| 2. Customer-centric Approach | Enhance our customer engagement approach, with a greater focus on understanding our customers’ circumstances, supporting vulnerable customers, and significantly reducing legal action |

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| 3. Improved Stakeholder Engagement | Listen and respond proactively to feedback from all stakeholder groups, and act with humility from a place of genuine care |
| 4. Sustainable Growth Strategy | Refocus our operating model on better service and customer outcomes to build a more sustainable business that is trusted by our customers, clients and wider stakeholders. |

In the context of these focus areas, the reduced use of legal action as part of our collections approach has been a critical change over the last six months. We have instigated an extensive programme of change to improve customer contact, and to reduce levels of litigation and bankruptcy by implementing new minimum thresholds based on:

- face value of outstanding debt;
- the length of time the debt has been owned by CLH before commencing legal action; and
- a more comprehensive review of circumstances, in particular vulnerability triggers, which may complicate the customer's ability to meet their obligations.

The Group has also implemented new review controls prior to an account moving to legal action and ceased bankruptcy proceedings on accounts unless exceptional circumstances exist and Board level sign-off is obtained. The Group is committed to legal action only as a last resort, when it has been proven through a comprehensive investigation process that a customer has the capacity to pay, but has been unwilling to engage with us to agree an appropriate repayment arrangement.

2. Release of 31 December 2019 Interim Financial Report

As a consequence of the Strategic Review, the Company has now also assessed the impact on the value of its Purchase Debt Ledger ("PDL") assets arising from changes to its collections approach. This has allowed CLH to finalise its financial statements for the half year to 31 December 2019. The financial statements for the CLH group for the half year to 31 December 2019 are attached. Some of the material aspects of CLH's financial performance the half year to 31 December 2019 include:

- Statutory loss before tax: \$67.4 million (1H19: Profit before tax \$12.3 million)
- Statutory loss per share: -33.8 cents (1H19: Earnings per share 6.2 cents)
- Shareholders' equity: \$174.3 million (30 June 2019: \$229.1 million)
- Impairment loss on PDL assets: \$ 89.9 million, with an after tax impact of \$ 62.9 million (30 June 2019: NIL). Revised PDL value post write-down: \$337.6 million
- Underlying profit after tax: \$15.6 million (1H19: Profit after tax \$8.5 million)

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3. Review of carrying value of PDL assets

As outlined in previous announcements, the changes flowing from the Strategic Review have implications to the valuation of the Group's PDLs. Revising our collection strategies in the PDL business ("Lion Finance") has come at a cost. Adopting more customer-focussed collection strategies, in particular a lower reliance on legal activity, has a material impact on the quantum and timing of expected future cash flow from the PDL book. In accordance with the requirements of AASB 9, we have taken a \$89.9 million write-down before tax to the accounting value of the PDL book to capture the net present value impact of the adjusted cash collection profile.

This lower value is more reflective of the future value of the existing PDL book and is supported by a sustainable collection strategy. Notwithstanding the write-down, the PDL book remains a highly valuable cash flow stream for the business.

The decision to write down the PDL book has impacted the Group's gross and net asset position and as a consequence requires us to restructure our existing borrowing arrangements. The Group's current lending arrangements require, among other things, that the Group maintains an agreed Loan to Valuation Ratio and a Rolling Leverage Ratio. The adjustment to the carrying value of the Group's PDL assets means that the Group cannot comply with those ratios as they are currently described, and the Group has agreed with its lenders a programme to recapitalise the Group over the coming six months, in order to restore those financial covenants to a sustainable level, and to provide debt purchase funding for the future.

Our senior lenders have been supportive of this process and have granted us a period of six months (April 2020 – September 2020) to complete this exercise under the terms of a formal standstill arrangement. Good progress has already been made in developing solutions to restructure existing borrowing arrangements and where necessary introduce new forms of capital into the business. During the standstill period, CLH continues to be supported by its lenders and professional advisers: Flagstaff Partners, Deloitte and Clayton Utz.

4. COVID-19 Impacts

Subsequent to 31 December 2019, the Group's performance and operations have been impacted by both the societal and economic impact of the COVID-19 virus. The Group quickly and efficiently transitioned to remote working arrangements for all of its people, in each of its operating jurisdictions, with negligible disruption to client service requirements or engagement with our customers. Our people have adjusted well to the new working environment and our information technology platform has enabled seamless execution of our work process away from our traditional office environments.

Our systems and processes have allowed us to deliver our services within our usual governance and compliance framework. This includes our call centre personnel in Australia, New Zealand and the Philippines.

All customer contact channels have remained open, enabling customers to interact as usual with the Group during this challenging time. The Group had already put in place a range of assistance measures for customers affected by the bushfires, and those efforts have been increased to help any customers affected by COVID-19 and its economic consequences.

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The Group has observed weaker cash collections on a year on year basis since March 2020. Those declines appear to have stabilised and the Group is now operating at a sustained level of weekly cash receipts. As it is unclear how long economic conditions in Australia and New Zealand will remain challenging, the Group remains focussed on maintaining high quality engagement with all of our customers, to establish and maintain sustainable payment arrangements which are tailored to the customers' individual circumstances. Protecting the employment arrangements of our people, while simultaneously reducing operating costs, will remain a key focus for the business as the longer term impact of COVID-19 is more fully understood.

5. Recapitalisation Process and Suspension Update

Further to previous announcements, and as outlined above, CLH is continuing to undertake a comprehensive recapitalisation process with the support and assistance of its lenders and professional advisers.

While the recapitalisation process is ongoing, CLH believes that a resumption of trading in its securities would be premature and could adversely affect CLH's ability to successfully implement the recapitalisation process currently being undertaken.

CLH currently expects that the voluntary suspension of trading will remain in place until at least 30 September 2020 and will continue to inform the market of material developments as matters progress. CLH is not aware of any reason why the suspension of its securities should not continue or of any other information necessary to inform the market about the suspension.

Yours faithfully

Collection House Limited



Doug McAlpine

Chief Executive Officer and Company Secretary

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