1H18 Results presentation

Collection House Limited

February 2018

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Company summary

FINANCIAL SUMMARY (CLH:ASX)

Share price (27 February 2018)	$1.25
Shares on issue	135.9 million
Options	0.0 million
Market Capitalisation	$169.9 million
Cash	$0.3 million
Drawn Debt (31 December 2017)	$135.6 million
Enterprise Value	$305.2 million

BOARD AND SENIOR MANAGEMENT

Leigh Berkley	Chairman
Michael Knox	Indep. Non-executive Director
Anthony Rivas	Managing Director & CEO
Kristine May	Company Secretary & CFO

Collection House Limited

Debt collection and receivables management for third parties

Lion Finance

Debt purchasing and recovery

CLH Lawyers

Legal services including insolvency administration

MCC MIDSTATE CREDITCOLLECT PTY LTD

Tailored debt collection services, specialising in Local Government

Collective Learning and Development

Nationally recognised training provider in financial services and leadership

CLH Business Services

Customer service outsourcing for third parties

ThinkMe Finance. we're more about you

Licensed specialist finance broker for the provision of credit

SAFE HORIZONS

Provision of financial hardship services for third parties

Continuing to show improvement, but still a work in progress

- Group revenue of $63.4m was down 4% on 1H17, as we continue to be affected by the period of lower purchases during FY15 and FY16.
- Collection Service revenue of $33.1m was down 1% on pcp, but new contract wins and deferred revenue catch-up means we expect to see a strong rebound in the second half in both revenue and EBIT.
- Despite a 6.5% drop in Lion Finance (PDL) revenue, efficiencies achieved in prior periods are now feeding into improved margins with normalised EBIT +3.5% and margins up to 41% (1H17: 37%), despite a more prudent amortisation rate of 46% being adopted.
- Normalised group EBIT of $15m was marginally below 1H17 of $15.2m, but this reflected the higher amortisation rate, with underlying performance +6% on pcp (FY18 46% v FY17 43%).
- **We have already reached our FY18 PDL purchasing target of $60 - $65m while maintaining our pricing discipline. Due to increased supply, and a $50m expansion in our bank facility, we have increased FY18 guidance to $70 - $75m.**
- **The improving outlook for PDL purchasing and the increasing efficiency dividend from operational enhancements means we have increased our FY18 EPS guidance from 14 - 14.5 cents per share, to 14.5 - 15 cents per share.**
- **The dividend will be maintained at 3.9 cents per share, with the DRP reactivated at an attractive 2.5% discount.**

Improvements apparent, but expect more in 2H18

Year to June ($m)	1H16	1H17	1H18	Δ% pcp
Reported (post reallocation)				
PDL Cash Collections	59.4	52.5	50.4	-3.9%
Amortisation of PDL	(23.1)	(20.0)	(20.1)	1%
Collection Services Revenue	28.2	33.4	33.1	-1.0%
Unallocated	0.0	0.2	(0.0)	n/a
Total Revenue	64.6	66.0	63.4	-4.0%
EBITDA	39.1	36.9	36.9	0.1%
Net Profit After Tax	8.3	8.2	8.2	0.5%
EPS (cents)	6.3	6.1	6.1	0.2%
DPS (cents)	3.9	3.9	3.9	0.0%
Normalised				
Normalised EBITDA	40.8	37.1	37.4	1.0%
Normalised Net Profit After Tax	9.5	8.8	8.6	-2.5%
Normalised EPS (cents)	7.2	6.5	6.3	-2.9%

Following a divisional reorganisation ThinkMe and Safe Horizons have been reallocated to the Lion Finance segment from Collection Services, as most business for these divisions is originated from Lion Finance. Other costs have also been reallocated. A reconciliation is detailed in the Appendix & Glossary. All tables in this report are rebased for this reorganisation.

- PDL Cash Collection revenue was down on the previous interim results due to lower PDL purchase volumes and higher prices paid in prior years.
- We expect PDL collections to improve in 2H18 and beyond.
- Collection Services was marginally down on pcp due to some revenue being deferred to 2H18. New customers and revenue catch-up should see a strong recovery in 2H18, with FY18 EBIT at least in line with FY17.
- Normalised Group EBITDA was marginally higher on pcp due to efficiency gains achieved over the last 12 months.
- Normalised EPS were down 2.9% on 1H17, but a stronger second half will see FY18 of 14.5 – 15cps for the full year.
- Had the same amortisation policy been adopted in the prior period, the new guidance would equate to underlying FY18 EPS growth of 7.5% to 11.2%.

Underlying performance coming through

	EBIT			NPAT		
Year to June ($m)	1H17	1H18	Δ%	1H17	1H18	Δ%
Reported (post reallocation)	**15,050**	**14,546**	**-3.4%**	**8,189**	**8,232**	**0.5%**
ADD: Restructuring costs	150	485	n/a	105	340	n/a
ADD: CHIBI & NZ Tax adj.	0	0	n/a	501	0	n/a
Normalised	**15,200**	**15,031**	**-1.1%**	**8,795**	**8,572**	**-2.5%**
LESS: Prior period adj. to higher amortisation*	-1,013	0	n/a	-709	0	n/a
Underlying (like for like)	**14,187**	**15,031**	**6.0%**	**8,086**	**8,572**	**6.0%**

** Proforma backdated adjusted to provide like for like comparison based on higher amortisation rate now adopted (46% vs. 43% in pcp)*

- Restructuring costs in the current period were $0.49m, but no further material one off costs are anticipated in the current financial year.
- Normalised results were in line with internal expectations. We are anticipating typical seasonality and an improvement in performance to produce second half profits +25% higher than first half, and better than pcp (2H17: $18.6m).
- The like-for-like underlying performance shows the improvements emerging, but improving PDL purchasing, increased ledger purchase volume and better collections for both new PDL purchases and the backbook, should provide further profit growth as improvements are implemented.

Increased facility to expand PDL purchases

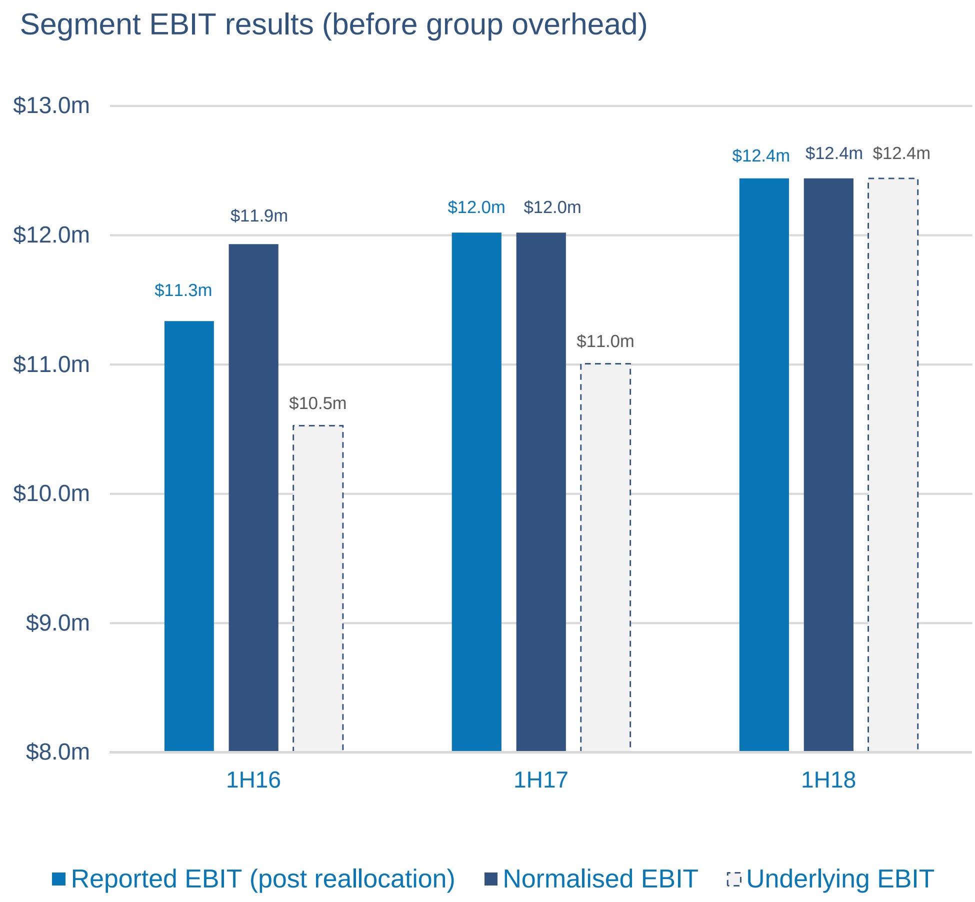
Cashflow Year to June ($m)	1H16	1H17	1H18	Δ%
Operating cash flow	33.3	29.2	31.8	9%
PDL acquisitions	30.1	26.1	35.9	38%
Capex	0.9	2.4	1.8	-26%
Free cash flow	2.3	0.7	(5.9)	n/a

Balance sheet As at June ($m)	1H16	1H17	1H18	Δ%
PDL carrying value	261	271	300	11%
Net borrowings	118.3	114.5	135.3	18%
Net borrowings/PDL carrying value %	45.4%	42.2%	45.0%	
Gearing*	40.5%	38.3%	41.3%	

** Net debt / Net debt + Equity*

- Operating cashflow was up 9% on pcp to $31.8m.
- PDL acquisitions in the period were $35.9m and since 1H18 this has increased to $63m.
- We now expect to increase PDL purchases in the period to at least $70 - 75m, up from previous guidance of $63 - $65m.
- PDL cash collections are satisfactory, but below optimised targets, reflecting lower PDL purchases and higher prices paid in previous periods.
- Our bank facility **has been increased by $50m** to $175m (plus an unchanged $12.5m overdraft facility).
- The group may temporarily increase gearing to take advantage of available PDLs due to AASB9, but as cash collections continue to improve we expect to return to historical 40% guideline.

Improving performance, more to come in second half



- Lion Finance now services all four major banks and we are enjoying increased forward flow PDL purchase arrangements.
- Despite the competitive purchase environment of recent years, the increased supply due to AASB9 means prices remain reasonable.
- Normalised EBIT of $12.4m was up 3.5% on 1H17.
- If 1H17 had incurred the same amortisation rate adopted in 1H18 (46% versus 43% pcp), underlying EBIT would have increased to 13%.
- We are now enjoying significant gains from lower labour costs and are now focused on optimising buying, technology/automation benefits and improving backbook collections.
- We expect Segment EBIT in 2H18 to be at least in line with 2H17.

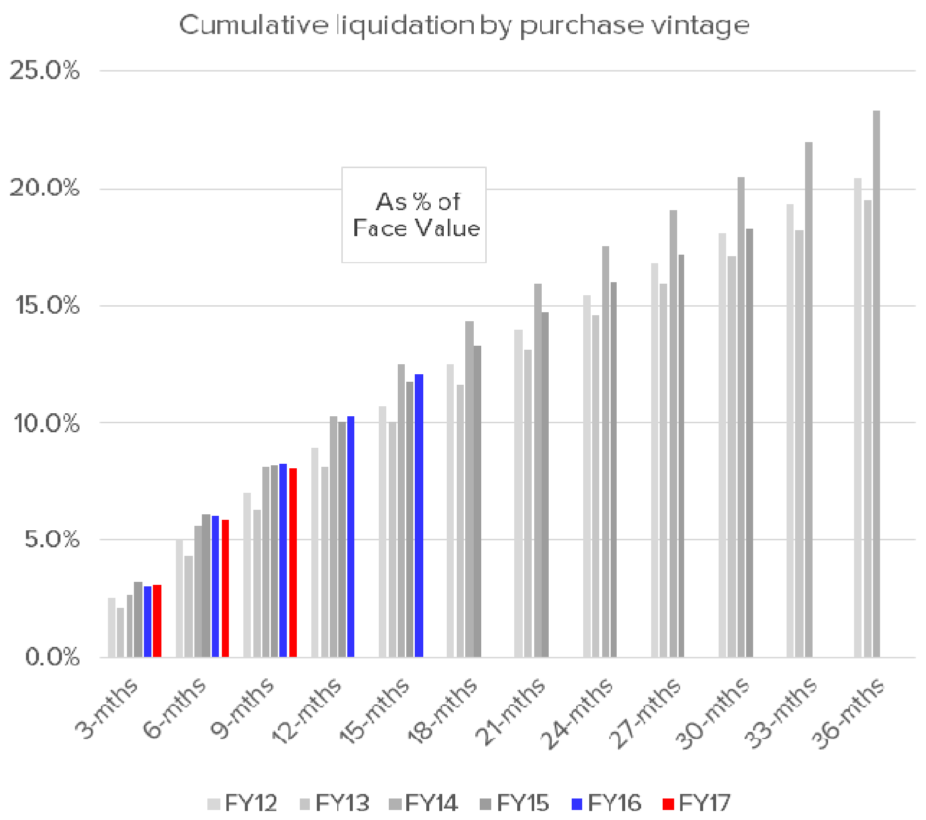
The enclosed chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe and Safe Horizons into the Lion Finance segment – **see Appendix & Glossary for details.**

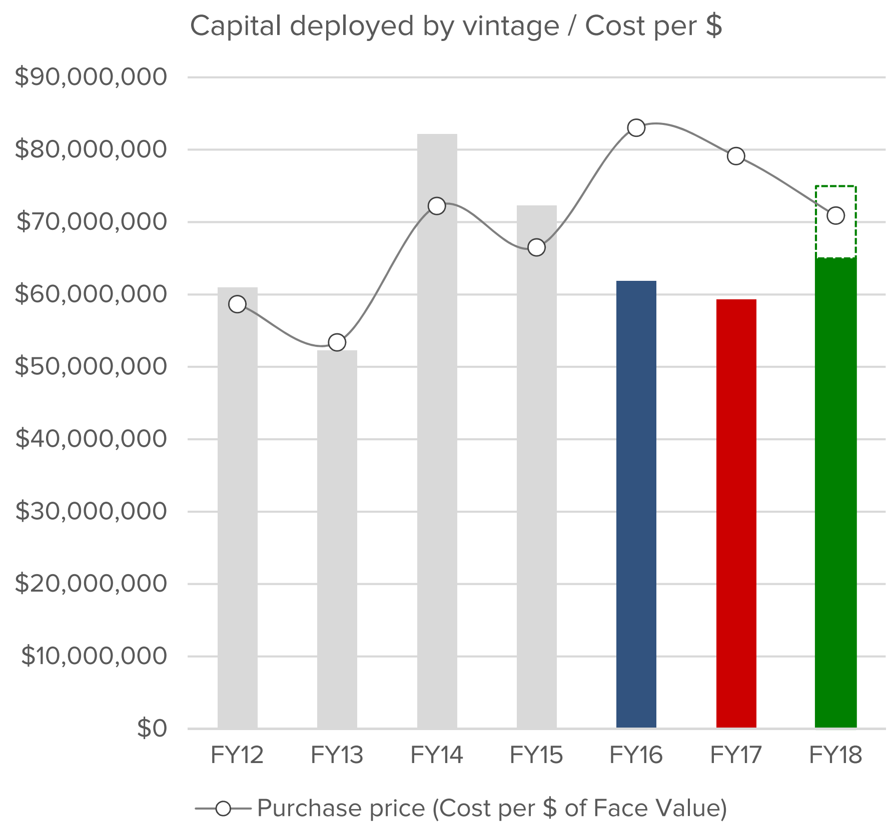
Repayment book contribution has improved, while the focus has shifted

Year to June ($m)	1H16	2H16	1H17	2H17	1H18
Total porfolio					
Face value	$1.57bn	$1.46bn	$1.52bn	$1.59bn	$1.66bn
Number of accounts	296,000	262,000	262,000	258,000	253,000
Average balance	$5,302	$5,576	$5,819	$6,154	$6,554
Repayment book					
Face value	$387.0m	$357.0m	$319.0m	$317.0m	$320.0m
Number of accounts	55,000	49,000	44,000	42,000	42,000
Average balance	$7,036	$7,286	$7,250	$7,548	$7,680
% of PDL collections	77%	77%	76%	68%	74%

- Purchase focus is shifted towards higher balance portfolios, and as a result, the average balance of the book has increased.
- Reversing the down trend, a higher proportion of PDL collections are derived from the Repayment Book through reducing long term arrangements and employing proper account management best practice.
- Enhancing non-voice collection strategies, including our online customer portal, will help us grow and maintain the repayment book as customers are showing a willingness to self selected repayments plans.

Improved efficiency, but improvements in buying and expanding capital deployments to come

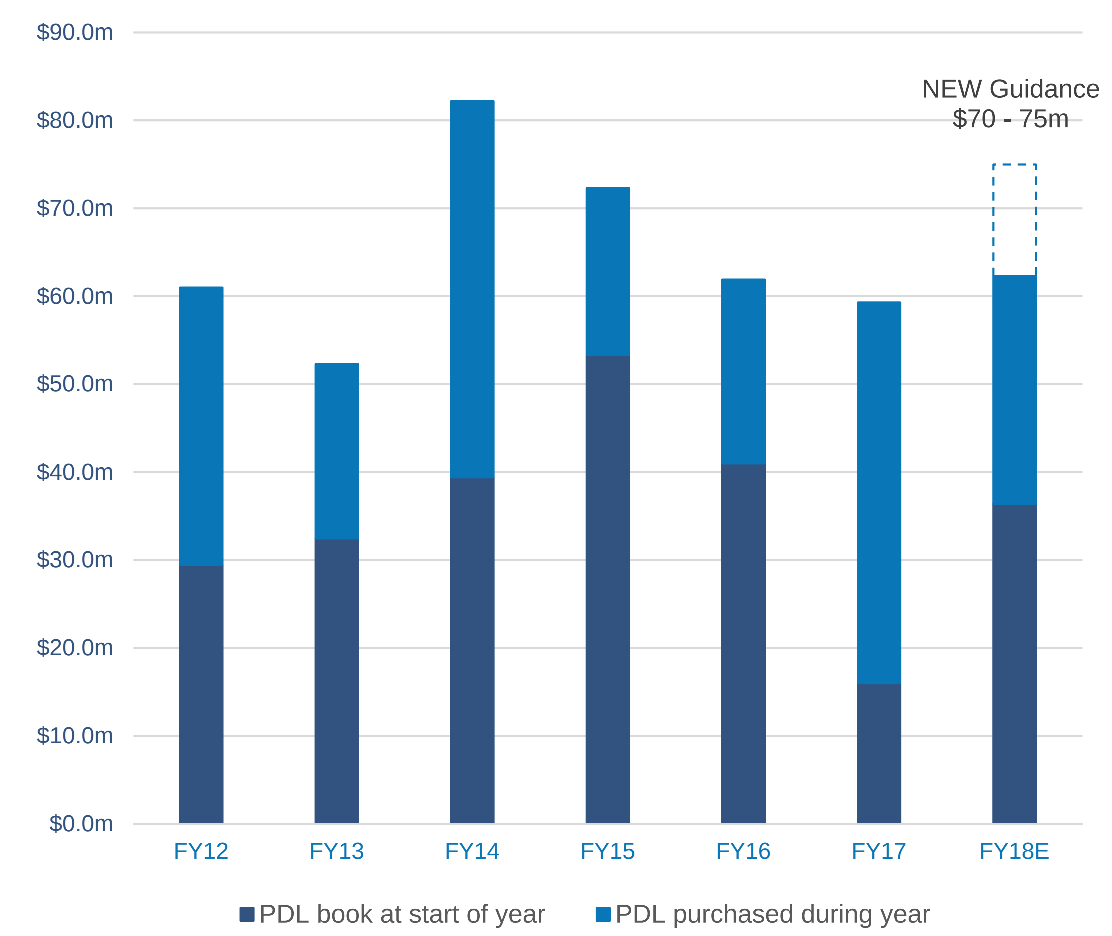




- Collection strategy is geared towards setting customers on payment arrangements rather than excessive settlements, to increase long term liquidation.
- Lower cash collections in recent years is no longer a function of inefficiency, but a result of the period of lower purchases during FY15 and FY16. We expect to improve on both of these metrics in the current and future periods.

PDL purchasing improving

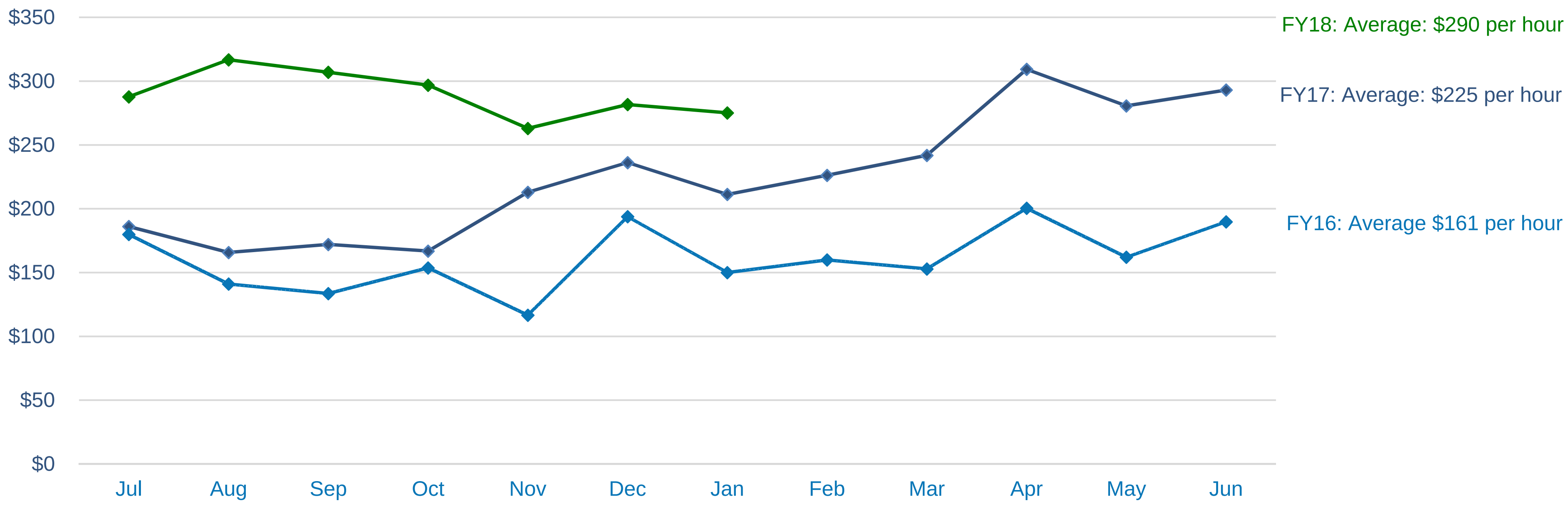
PDL purchase pipeline



- The market for PDL purchases remains competitive but supply from banks remain above trend due to changed provisioning requirements under AASB9.
- We are gaining additional access to PDLs via expansion of forward flow agreements from all four major banks (from two last year).
- Recovery rates per dollar invested remain in line with previous four years trends.
- We have access to additional $50m bank debt financing and now expect to deploy $70 - $75m in the current financial year.

Continuing to find ways to be more efficient and competitive

Lion Finance: PDL collections per FTE hour



- The average collection rate per staff hour has increased a further 22% in fiscal year 2018, on top of the 40% improvement captured in FY17.
- Technological enhancements and focus on optimisation in operations continue to enhance productivity.
- Leveraging non-voice channels to support call centre performance will further improve collections per hour.

Result lower than expected, but recovery in the second half

Segment EBIT results (before group overhead)

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

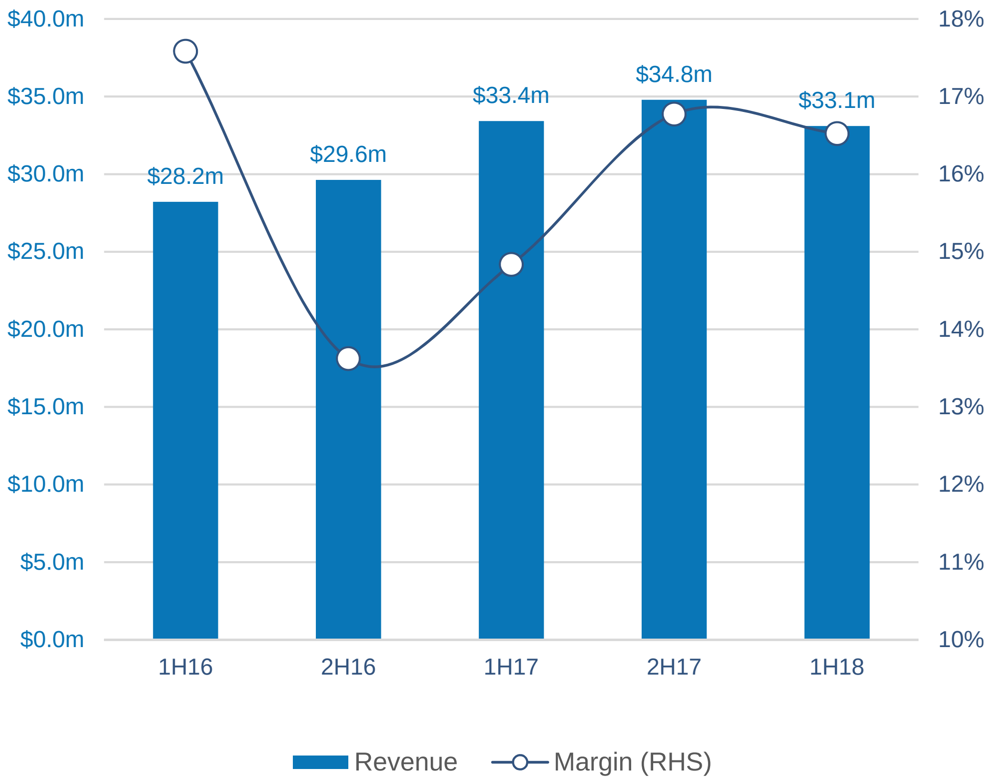
- Lower than expected performance in the period with a number of clients deferring work into 2H18.
- A number of expanded client contracts including our newly developed Portal and Business Services offerings will contribute to 2H18 and FY19, but costs were incurred in 1H18 in anticipation of these contract wins.
- We expect 2H18 to report at least 35% growth on 1H18 and the full year EBIT contribution to be at least in line with FY17.
- Businesses within segment:
  - Collection House Limited (including NZ, Government Services and Philippines)
  - CLH Lawyers
  - Midstate CreditCollect
  - Collective Learning and Development
  - CLH Business Services

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

COLLECTION SERVICES: MARGINS

Returning to a growth track

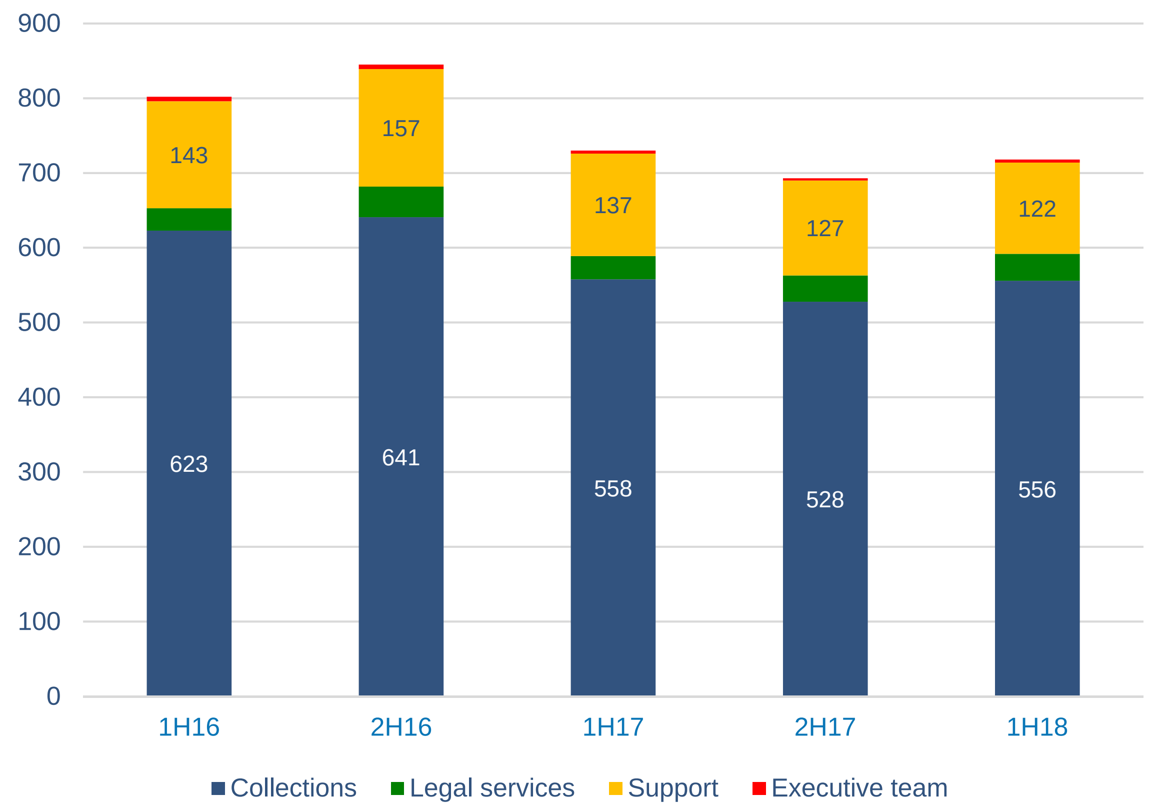
Segment revenue and margins (before group overhead)



- The improved margins achieved in 2H17 have been maintained in the period, but we expect to reach historical levels as further improvements are made.
- 1H18 also saw the segment incur costs ahead of revenue, which should be partially offset in 2H18 and fully offset in FY19.
- Further technological initiatives currently in development will be a contributor to improve our overall collection margins.
- Continued review of low margin client initiatives to identify opportunities of improving profitability.

Business right-sized, but we remain vigilant for opportunities to reduce costs

Domestic employee count



- Over the last 24 months the headcount has been reduced by approximately 84 employees or 10%.
- Resources are now right-sized and crucially the savings have resulted in higher revenue per FTE, with revenue per employee up 10% since 1H16.
- Resource increase in Collection Services due to recent and planned business opportunities to assist with growth.
- Collection staff:
  - Lion Finance (PDL): 234
  - Collection Services: 312
  - Other: 10
- In addition, there are 79 employees in the Philippines, 60 of which are in collections.

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

Phase 1: By December 2016

- Completed cost saving and efficiency review (business as usual)
- Reviewed and improved PDL pricing strategies (business as usual)
- Completed pilot of new call centre technology
- Completed Manila transformation
- Secured first clients for CLH Business Services
- Secured first clients for Safe Horizons

Phase 2: By June 2017

- Realise performance improvement from new staff training model matching individual needs to specific skills training
- Achieve PDL collections per hour $195 - $205 per agent
- Implement and achieve cost savings identified in 1H17

Phase 3: June 2017 onwards

- 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%

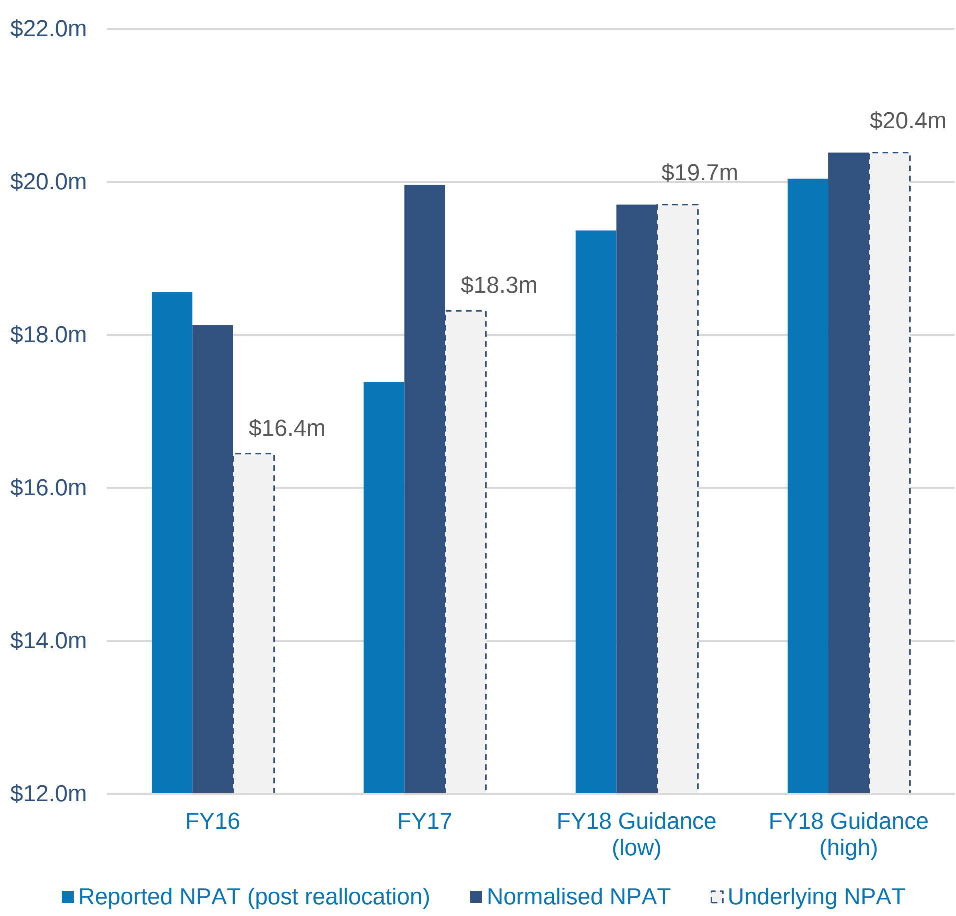
Phase 4: January 2018 onwards

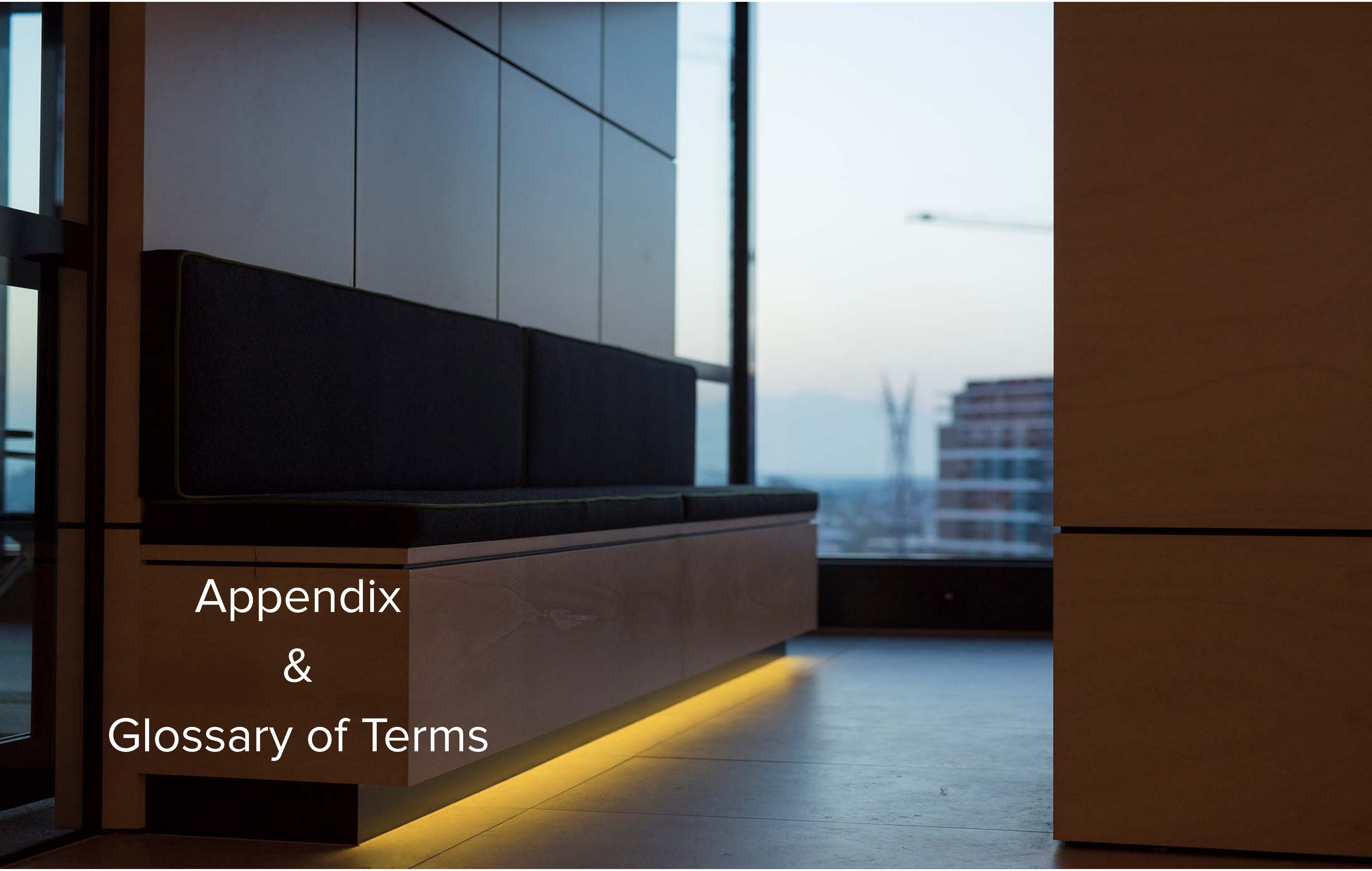
- Transform CLH into an analytics driven organisation - integrating machine learning to enhance pricing and PDL valuation models, enhanced version to be ready by end of 2H18 with a market update to be provided
- Next stage evolution of call center strategy
  - Collection strategy based on customer segmentation
  - Deploying enhanced dialer optimisation model
  - Integrating non-voice channels to enhance performance
- Leveraging offshore facilities further for business expansion and strategic cost optimisation
- Portal and C5 – marketing products to current and new clients to create new revenue streams

Still a work in progress, but platform for growth in place

- We are actively working to further improve our PDL buying, productivity and collections yields, however, despite a period of investment and reorganisation, the underlying picture shows improvements coming through.
- Original PDL purchase guidance of $63 - $65m achieved ($63m today), guidance upgraded to $70-$75m in FY18.
- Original normalised EPS guidance of 14 - 14.5cps, now upgraded to 14.5 – 15.cps.
- The Board has resolved to maintain the dividend at current levels 3.9cps and the DRP reactivated (2.5% discount).
- We expect to release additional news flow on initiatives to enhance shareholder value over the course of 2018.

Group NPAT trends





Appendix & Glossary of Terms

GLOSSARY OF TERMS

Industry lingo and financial terminology

INDUSTRY TERMS USED IN THIS REPORT

- AASB9 - A change in the Australian Accounting Standard from AASB 139, effective 1 January 2018 which determines where financial assets and financial liabilities are measured at fair value or amortised cost. The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. 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.
- Full Time Equivalent (FTE) - The hours worked by one employee on a full-time basis. The concept is 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.
- 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
- Repayment book (Arrangement book) - A group of customers currently engaged in formal commitments to repay their account over a period of time. For example, a customer has entered into an agreement to pay $1,000 over 10 weeks at $100 per week.
- Vintage – The year the debt was purchased

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

	Revenue (Reported)					EBIT (Reported)				
Year to June ($m)	1H16	2H16	1H17	2H17	1H18	1H16	2H16	1H17	2H17	1H18
Reported pre-reallocation										
Lion Finance	36,302	38,337	32,306	32,488	30,328	12,119	17,178	13,013	15,667	12,440
Collection Services	28,245	29,664	33,577	34,899	33,112	4,963	4,038	4,960	5,837	5,471
Unallocated	5	141	157	-9	-13	-2,610	-3,557	-2,923	-5,440	-3,365
Total	64,552	68,142	66,040	67,378	63,427	14,472	17,659	15,050	16,064	14,546
Reallocation										
Lion Finance	23	25	146	105	0	-783	-1,057	-993	-964	0
Collection Services	-23	-25	-146	-105	0	783	1,057	1,134	964	0
Unallocated	0	0	0	0	0	0	0	-141	0	0
Total	0	0	0	0	0	0	0	0	0	0
Reported (post reallocation)										
Lion Finance	36,325	38,362	32,452	32,593	30,328	11,336	16,121	12,020	14,703	12,440
Collection Services	28,222	29,639	33,431	34,794	33,112	5,746	5,095	6,094	6,801	5,471
Unallocated	5	141	157	-9	-13	-2,610	-3,557	-3,064	-5,440	-3,365
Total	64,552	68,142	66,040	67,378	63,427	14,472	17,659	15,050	16,064	14,546

HISTORICAL RECONCILIATION: 2

Normalisation adjustments

Year to June ($m)	1H16	2H16	1H17 (EBIT)	2H17	1H18
Reported (Post reallocation)					
Lion Finance	11,336	16,121	12,020	14,703	12,440
Collection Services	5,746	5,095	6,094	6,801	5,471
Unallocated	-2,610	-3,557	-3,064	-5,440	-3,365
Total	14,472	17,659	15,050	16,064	14,546
One-off items					
Lion Finance	596	-3,996	0	0	0
Collection Services	0	304	0	0	0
Unallocated	1,077	1,401	150	2,544	485
Total	1,673	-2,291	150	2,544	485
Normalised					
Lion Finance	11,932	12,125	12,020	14,703	12,440
Collection Services	5,746	5,399	6,094	6,801	5,471
Unallocated	-1,533	-2,156	-2,914	-2,896	-2,880
Total	16,145	15,368	15,200	18,608	15,031

Year to June ($m)	1H16	2H16	1H17 (One off items)	2H17	1H18
EBIT Adjustments					
LESS: Profit on PDL sale	0	-4,075	0	0	0
ADD: Relocation costs	0	2,234	0	0	0
ADD: Restructuring costs	1,673	-450	150	47	485
ADD: C5 Software write off	0	0	0	2,497	0
ADD: CHIBI & NZ Tax adj.	0	0	0	0	0
Total one offs adjustments	1,673	-2,291	150	2,544	485

Item	Reason for adjustment
Profit on PDL sale	Unusual sale item, not normal course of business
Relocation costs	Once off move to new head office and operation centre
Restructuring costs	Predominantly cost associated with personnel changes
C5 Software write off	Write down of C5 software following review
CHIBI & NZ Tax adj.	Historical adjustment from FY14 and FY15

Underlying performance

	EBIT					NPAT				
Year to June ($m)	1H16	2H16	1H17	2H17	1H18	1H16	2H16	1H17	2H17	1H18
Reported (post reallocation)	14,472	17,659	15,050	16,064	14,546	8,315	10,247	8,189	9,198	8,232
LESS: Profit on PDL sale	0	-4,075	0	0	0	0	-2,853	0	0	0
ADD: Relocation costs	0	2,234	0	0	0	0	1,564	0	0	0
ADD: Restructuring costs	1,673	-450	150	47	485	1,171	-315	105	33	340
ADD: C5 Software write off	0	0	0	2,497	0	0	0	0	1,748	0
ADD: CHIBI & NZ Tax adj.	0	0	0	0	0	0	0	501	190	0
Normalised	16,145	15,368	15,200	18,608	15,031	9,486	8,643	8,795	11,169	8,572
LESS: Adj. to higher amortisation*	-1,404	-996	-1,013	-1,341	-	-983	-697	-709	-939	0
Underlying	14,741	14,372	14,187	17,267	15,031	8,503	7,946	8,086	10,230	8,572

** Proforma adjusted to provide like for like comparison based on higher amortisation rate now adopted (46% vs. 43%)*

Diversified business model

Purchased debt ledger (PDL)

Businesses included:

- Lion Finance
- ThinkMe Finance
- Safe Horizons

Lion Finance is the Group's purchased debt entity, responsible for the collection of PDLs the Group buys from Australian credit providers. ThinkMe and Safe Horizons have been reallocated to the PDL Segment as most business for these divisions is originated from Lion Finance.

Collection Services segment

Businesses included:

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

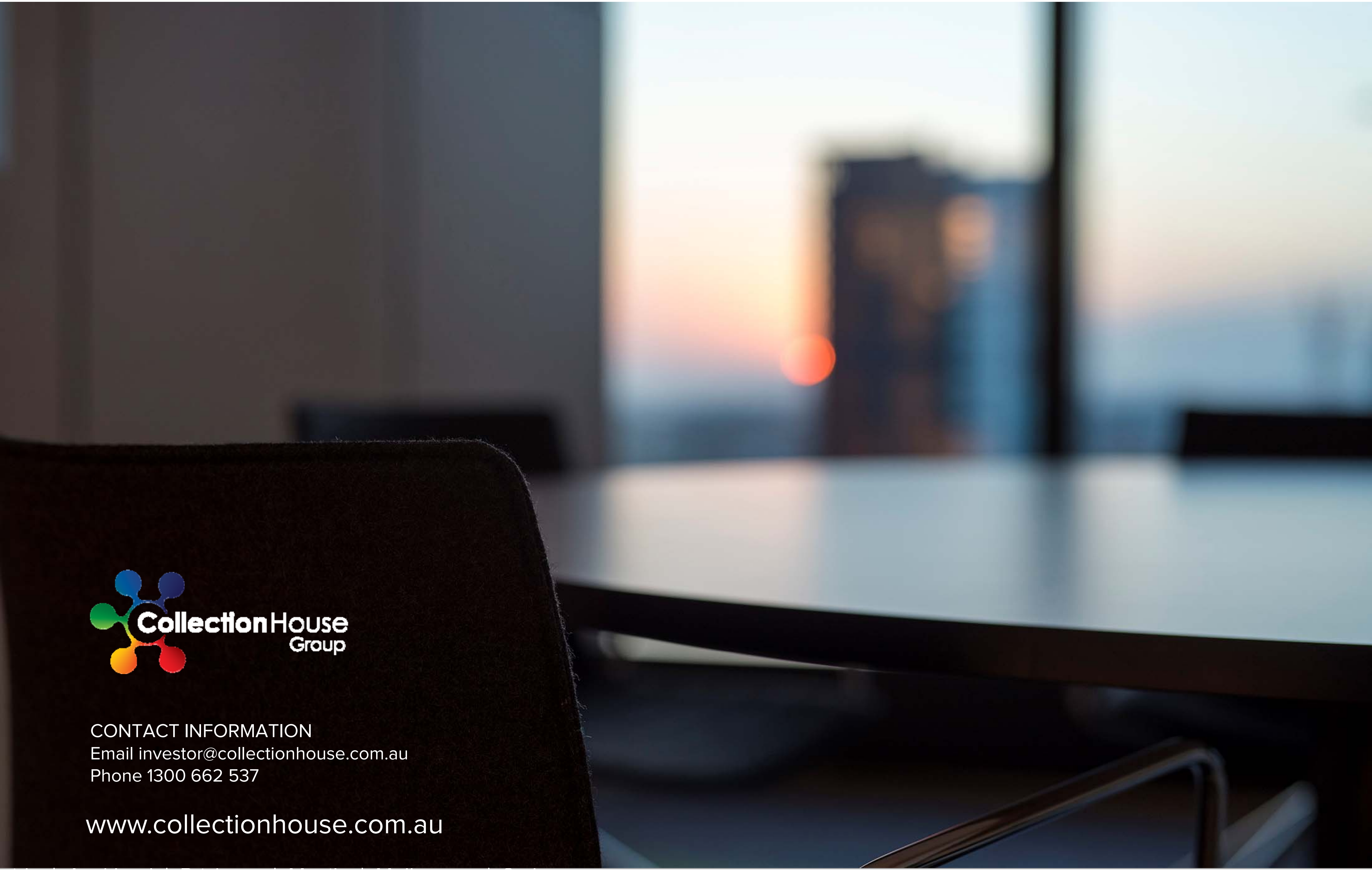
The Collection Services segment is made up of a number of brands, providing services to businesses, Government organisations and individuals.

Group support services

Operations included:

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

Operations within the Collection House Group are supported by a number of specialist support services, including:



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