Collection House Update

Company Presentation

June 2020

Disclaimer

Collection House

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COMPANY SUMMARY

Financials, Executive and Board

FINANCIAL SUMMARY (CLH.ASX)

Share price (13 February 2020)	$1.09
Shares on issue	141.9 million
Options	0.0 million
Market Capitalisation (13 February 2020) [a]	$154.0 million
Net Debt (as at 31 December 2019)	$218.7 million
Net Debt (as at 31 May 2020) [b]	$209.4 million
Enterprise Value [a]+[b]	$364.5 million
PDL Carrying Value (post write-down)	$337.6 million

BOARD AND SENIOR MANAGEMENT

Leigh Berkley	Independent Chairman
Michael Knox	Indep. Non-executive Director
Sandra Birkensleigh	Indep. Non-executive Director
Catherine McDowell	Indep. Non-executive Director
Doug McAlpine	Chief Executive Officer
Denica Saunders	Chief Operating Officer
Jonathon Idas	Chief Legal Officer
Andy Adusumilli	Chief Data Scientist Officer

Strategic overview

Under new leadership, the Company has undertaken a Strategic Review to position Collection House for a more successful future, built on a foundation of delivering more customer focussed outcomes, particularly in its purchased debt business.

Recovery of debts is a fundamental part of the credit industry, without which the cost of credit to all borrowers would be higher. Although a commercial industry, the interests of indebted consumers and shareholders are best served by a process that is compassionate.

We have responded to the guidance that has emerged from the Financial Services Royal Commission and listened to the constructive feedback from clients, customers and other stakeholders, including its shareholders, to implement a change programme particularly in Lion Finance (our purchased debt business).

The key impact of the review is a more measured collections process, focussed on delivering the right outcomes for all our customers, through a deeper understanding of their circumstances. This will be achieved through the upskilling of our people, the use of technology to improve the customer experience and lower reliance on litigation.

These strategic changes have had the following financial impact on the Company:

- A flatter collection curve reducing the net present value (NPV) of PDL assets to $337.6 million ($89.9m reduction in PDL carrying value)
- The curtailment of the non-core PDL sale program* in future years, with a focus on retaining long term profitable payment arrangements
- A permanent reduction in annualised legal expenses of $1.5m (employee and other direct collection costs)

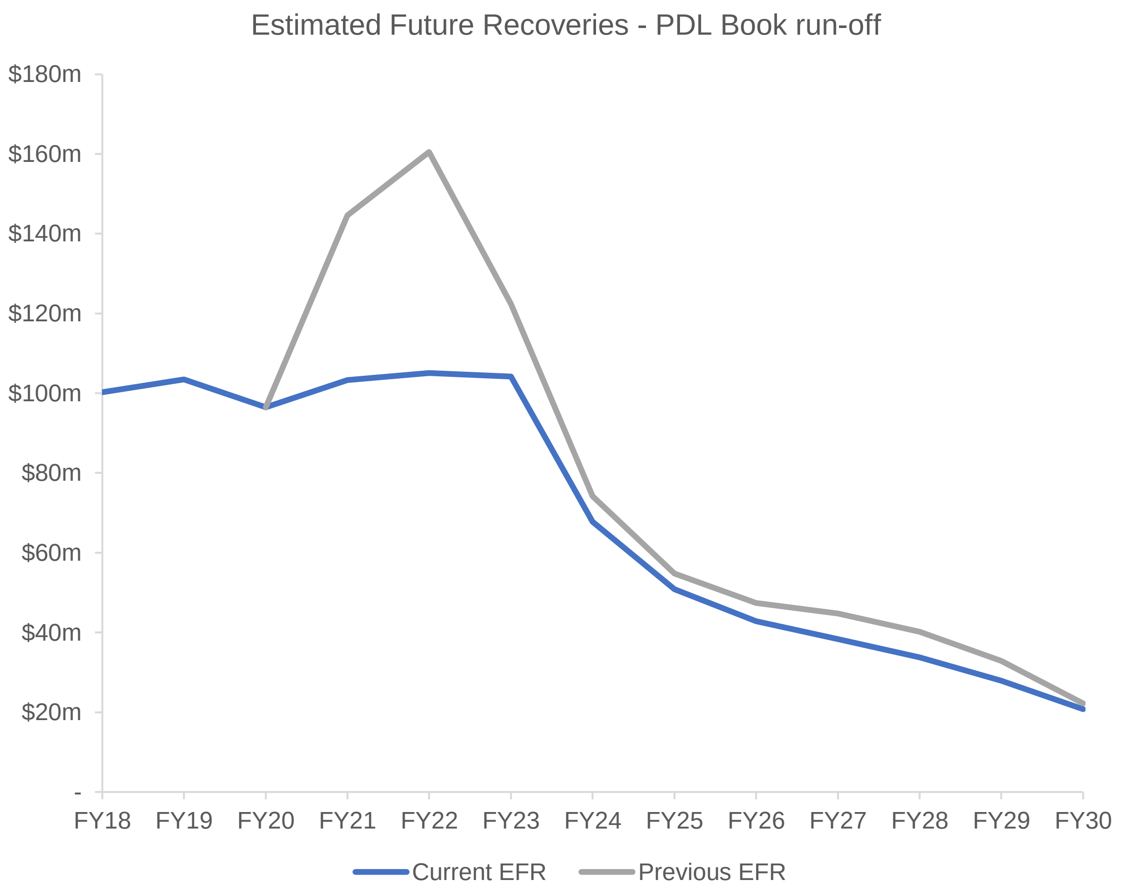
The reduction in the carrying value of the PDL book results in breaches to certain covenants under the Company's existing lending arrangements, but the Lenders have agreed that they will not take any action during the six month standstill period to allow the Company to remediate its balance sheet in an orderly way.

There will be a reshaping of the Company's cash generation capacity and annual earnings as a result of implementing changes arising from the strategic review and will create a more sustainable and predictable earnings outlook. The Company continues to trade profitably (cash and accounting) through the transition and the near term impacts of COVID-19.

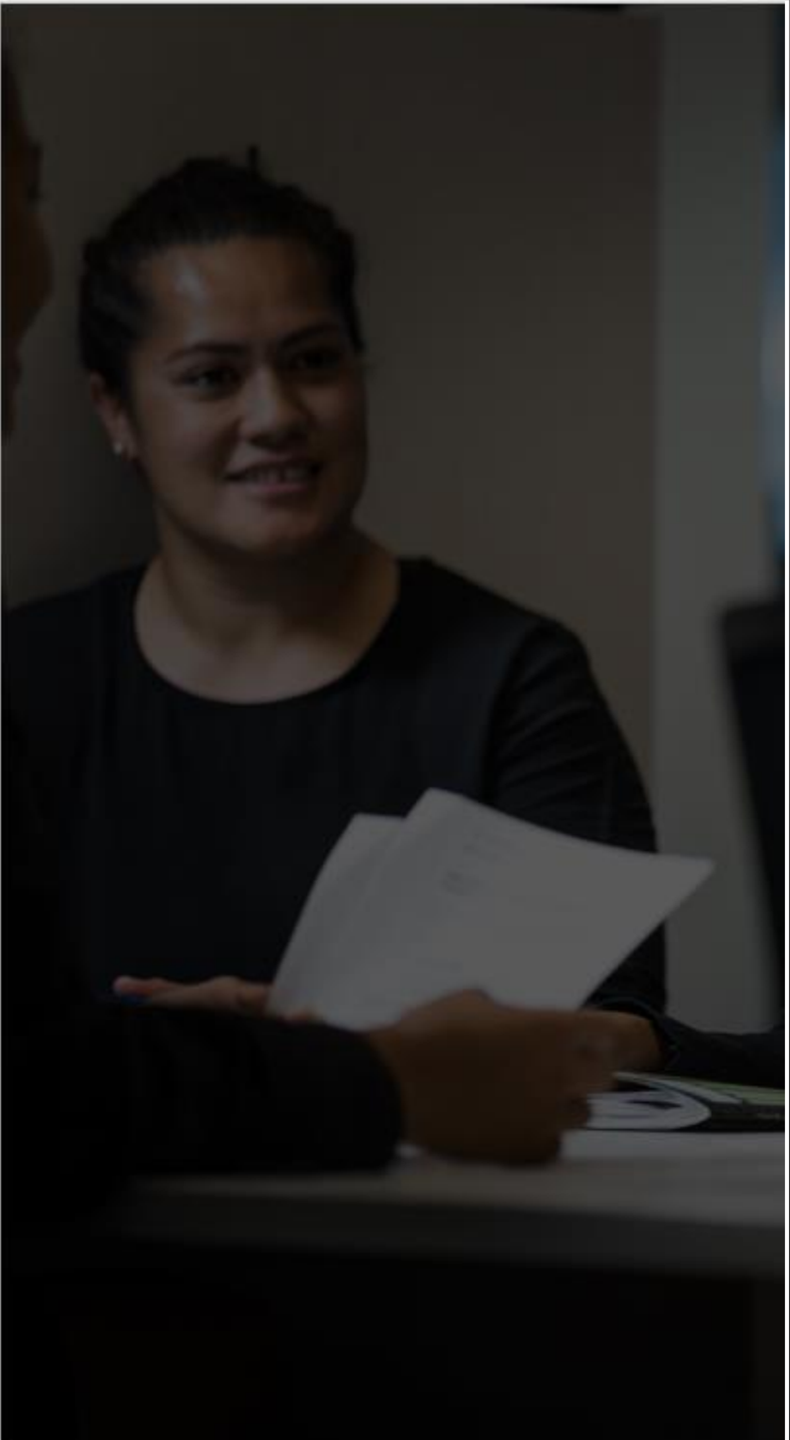
** Includes Portfolio Enhancement Programme and Call options*

The asset value of the business remains considerable

- As part of its Strategic Review, the Company has undertaken a comprehensive review of its collection strategy and the expected future recoveries to be realised from its current portfolio of purchased debt ledger assets.
- A lower reliance on litigation activity will see an elongation in the Company's collection curve and we are now applying more conservative average cash realisation per customer.
- We now anticipate $712 million of Expected Future Recoveries ("EFR") from the remaining book.
- In accordance with AASB9, the NPV of the anticipated EFR is $338m, with the impact of the review being a write-down of $89.9m pre-tax.
- EFR from the PDL book remain substantial and following the write-down provides a reliable base for future expected cashflows and forward accounting earnings.
- The IRR* applicable to the book continues to be 24% after the impairment adjustment.
- The revised cashflow profile and resulting accounting valuation represents a sound investment proposition.



**known as Effective Interest Rate under AASB9*



1H20 Results & Outlook

PERIOD TO 31ST DECEMBER

RESULTS SUMMARY

Acceptable underlying earnings result while re-basing the business

- PDL Cash Collections were up 18% and interest income up 50% on previous corresponding period reflecting significant prior period investments in PDL assets.
- Despite this investment PDL collections were down sharply on 2H19 due to change in legal strategy, and disruption arising from the adoption of new collection procedures in Lion Finance.
- Collections Services revenue was flat on 2H19 but up 9% on pcp. A better contribution is expected in the 2H20 based on the timing of contribution from new business secured in 1H20.
- Statutory profit severely impacted by the non-cash write-down to the carrying value of the PDL assets.
- Underlying profitability down slightly on 2H19, reflecting changes in collection approach.

Year to June ($m)	1H18	2H18	1H19	2H19	1H20	Δ% pcp
Reported (post reallocation)						
PDL Cash Collections	*50.6*	*76.3*	*55.1*	*80.6*	*64.9*	*18%*
Interest income	30.4	44.7	34.0	59.7	51.2	50%
Collection Services Revenue	33.1	35.9	32.2	35.4	35.0	9%
Unallocated	(0.0)	(0.2)	(0.3)	0.0	0.3	n/a
Total Revenue	**63.4**	**80.4**	**66.0**	**95.1**	**86.5**	**31%**
EBITDA	36.9	63.1	38.8	59.1	(43.3)	-212%
Net Profit After Tax	8.2	17.9	8.5	22.2	(47.3)	-657%
EPS (cents)	6.1	13.2	6.2	16.1	(33.8)	-646%
Dividend (cents)	3.9	3.9	4.1	4.1	0.0	-100%
Normalised (ex PEP & Call Options)						
Normalised EBITDA	**37.4**	**54.1**	**39.2**	**45.9**	**40.8**	**4%**
Normalised Net Profit After Tax	8.6	11.6	8.8	12.9	11.5	31%
Normalised EPS (cents)	6.3	8.6	6.4	9.4	8.3	28%

BALANCE SHEET

Reduction to gearing a key focus for 1H21

- The Company has 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.
- The PDL asset write-down is partially offset by investments in new PDLs in 1H20 ($28.8m).
- The write down of the PDL book has impacted the Company's gross and net asset position and as a consequence the existing borrowing arrangements require restructuring.
- The Company's current lending arrangements require, among other things, that the Company maintains an agreed Loan to Valuation Ratio and a Rolling EBITDA based Leverage Ratio.
- The Company's senior lenders have been supportive of this process and have granted a period of six months to complete a restructuring of the Balance Sheet, under the terms of a formal standstill arrangement.
- Recognition that gearing post write-downs is too high and will need to be adjusted to more sustainable levels through the refinancing process.

Year to June ($m)	1H18	2H18	1H19	2H19	1H20	Δ% pcp
Cash	0.3	0.5	5.9	1.6	0.7	
Purchased debt ledgers	54.9	52.7	61.0	52.1	29.6	
Other	15.3	22.0	21.7	13.0	11.4	
Current Assets	70.5	75.1	88.6	66.7	41.7	-53%
Purchased debt ledgers	245.6	259.2	265.2	358.2	308.0	
Intangibles	35.7	34.0	33.8	42.3	33.9	
Other	3.6	2.6	2.4	3.3	67.3	
Non Current Assets	284.9	295.8	301.4	403.8	409.2	36%
Borrowings	10.6	2.6	0.0	0.0	219.4	
Other	19.4	23.1	19.7	24.1	25.0	
Current Liabilities	30.0	25.7	19.7	24.1	244.4	1142%
Borrowings	125.0	131.9	153.0	210.6	0.0	
Other	8.4	6.8	6.0	6.7	32.1	
Non Current Liabilities	133.4	138.7	159.0	217.3	32.1	-80%
Net Assets	192.0	206.6	211.3	229.1	174.3	-17%
Net borrowings/PDL carrying value %	45.0%	43.0%	45.1%	50.9%	64.8%	
Gearing (ND / ND+E)	41.3%	39.3%	41.1%	47.7%	55.6%	

CASHFLOW

Consistent operating cashflow and lower short term investment

- PDL related Cash Collections increased by 18% to $64.9 million based on prior period investment in the book and a further portfolio sale to Balbec in October 2019, but were lower than the original budget.
- Collection Services cash collections were up 9% to $36.5 million.
- Cash operating expenses were up on 2H19 as the business experienced a proportionate increase in direct costs to collect in Lion Finance as a consequence of FY19 growth in the customer base.
- PDL investments undertaken in the first half were significantly below expectations and down on previous corresponding periods. This was largely driven by supply side factors, but also increased pricing disciplines.
- 2H20 will reflect lower PDL purchasing based on supply side drivers.

Year to June ($m)	1H18	2H18	1H19	2H19	1H20	Δ% pcp
Cash Collections	83.9	107.4	93.5	119.9	101.5	9%
Operating expenses	(52.1)	(53.3)	(60.7)	(65.9)	(69.0)	14%
Operating cash flow	31.8	54.0	32.8	54.0	32.5	-1%
PDL acquisitions	(35.9)	(45.4)	(36.6)	(96.1)	(28.8)	-21%
Equity Instrument	0.0	0.0	0.0	(8.5)	0.0	n/a
Capex	(0.6)	(0.8)	(1.8)	(2.9)	(2.0)	12%
Investing cash flow	(36.5)	0.0	(38.4)	(107.5)	(30.8)	-20%
Net proceeds from borrowings	1.3	9.9	21.1	54.7	(2.4)	n/a
Net proceeds from equity	(5.3)	(3.7)	(4.2)	(4.2)	(4.5)	7%
Other	(2.7)	(3.3)	(3.4)	(3.8)	(7.0)	106%
Financing cash flow	(6.7)	2.8	13.5	46.6	(13.8)	n/a
Change in cash	(11.4)	10.7	7.9	(6.8)	(12.2)	n/a
Cash at year end	0.3	0.2	5.9	(4.3)	0.7	n/a

IMPACT ON EARNINGS

Progress in re-basing business model and resetting forward earnings expectations

YEAR TO JUNE 2020		PREVIOUS GUIDANCE (MIDPOINT)	OPERATING REVISIONS	OPERATIONAL CHANGES GUIDANCE	ONE-OFF REVISIONS*	ALL ADJUSTMENTS GUIDANCE
PDL Purchases (guidance)	[$m]	90.0	(48.6)	41.4	-	41.4
Cash Collections	[$m]	150.0	(54.5)	96.5	-	96.5
Statutory NPAT	[$m]	33.1	(7.1)	26.0	(70.0)	(44.0)
NPAT underlying	[$m]	24.1	(7.1)	17.0	(65.5)	(48.5)
Statutory EPS	[cps]	23.5	-	18.4	-	(31.2)
EPS ex-PEP (guidance)	[cps]	17.0	-	12.1	-	(34.4)

** includes post tax write down ($63m), one off restructuring and standstill costs ($3m), and the cancellation of PDL sales programs ($3m)*

- The imperative to revise the approach to customers and the cancellations of the Company's historical PDL sales program, will result in a short term reduction in cash collections and profitability. The Company has also incurred one-off expenses in undertaking the Strategic Review and negotiating the standstill arrangements with its lenders.
- The total impact on underlying earnings is expected to be a reduction of $7.1 million against original FY20 guidance.
- Underlying NPAT for FY20 expected to be approximately $17.0 million against underlying FY19 NPAT of $21.7 million, but the business is now rebased.
- The composition of the Cash Collections shortfall against original guidance is derived from: $10 - $15 million cash collection shortfall from current year PDL purchases not executed in the period; ~$3 million per month reduction from revised legal strategy for 9 months; ~$5 million from disruptions caused by implemented change programme; and, ~$5 million from weaker overall economic performance, with a further, ~$2 million per month further reduction during COVID-19 period.

Key challenges to be addressed in 1H21

- COVID-19 presents unprecedented challenges, but the business is performing in line with our revised expectations:
    - successfully transitioned in mid-March 2020 to remote working arrangements for the vast majority of employees with limited disruption to clients and customers;
    - increase in moratoriums in March due to increased levels of customer hardship, but this seems to have plateaued; and
    - opportunities for the Group to provide additional customer contact support for Collection Services clients.
- The longer term impact of the COVID-19 pandemic on the Australian economy and the Group remains uncertain, but Government stimulus has provided support to our customers during this challenging period.
- The decision to not pay a dividend for the six month period to 31 December 2019 was a difficult one, but appropriate in light of the Company's current capital position. We recognise the frustration that this decision will cause a number of our shareholders, in addition to the shares remaining suspended from trading. However, in light of the need to position the Company in the best possible way for the refinancing process, we believe this is also in shareholders' best interests
- Against the backdrop of COVID-19 and a softer global economic outlook in the short to medium term, we expect the re-financing process to be challenging, but achievable. The business' fundamentals are sound and there is a well developed plan which is being actioned by management and its advisors to re-capitalise the business over the coming months.
- The directors believe that the changes made to the business over recent months form a solid foundation for a more predictable and sustainable business. The Group has demonstrated that its people, processes and systems are flexible and effective in adapting to unprecedented change. Most importantly however, the Group has listened to feedback from its clients, customers and wider stakeholder groups, including its shareholders, and made important changes to its collection strategy focused on delivering the right customer outcomes.

Stronger foundations

Increased Focus on Good Customer Outcomes

- Right solutions that match the customer's circumstances
- Better use of the Company's flexible technology platform
- Enhance call monitoring and governance of customer interactions
- Greater focus on supporting vulnerable customers

Better Stakeholder Engagement

- More compassionate approach to customers
- Improved engagement with Financial Counsellor Community
- Legal action used as a last resort and only after increased analysis of the customer's circumstances

Improved Transparency for Investors

- Expanded disclosure
- Less one-off expenses and simplified business model
- Alignment with industry practice

Conservative financial approach

- Reduced valuation of financial assets
- Deleveraging to reflect lowered asset value
- Fewer non-core projects
- More robust PDL pricing disciplines moving forward

Simplification of Business Model

- Progressive elimination of the historical PDL sale program
- Greater focus on building our arrangement bank
- Ongoing investment in collection staff and training
- Leverage operating efficiencies from historical investment in systems

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