ASX ANNOUNCEMENT

30 August 2019

Collection House Limited FY19 results

Collection House Limited ("the Company" or "the Group") ASX Code: CLH, is pleased to release its financial results for the year ended 30 June 2019. Total revenue was $161.1 million up 12% on the previous corresponding period and consolidated Net Profit after Tax ("NPAT") was up 18% to $30.7 million. A number of factors caused the business to deliver slightly lower than expected underlying cash results for the year. As expected, the impact of these factors has eased and the underlying cash performance since the start of FY20 has significantly improved.

Highlights

- EPS 22.3 cents per share up 16%
- 4.1 cents per share final dividend (fully franked) declared post year end and the dividend reinvestment plan remains in place providing shareholders with a 5% discount. Total FY19 dividend is 8.2 cps fully franked
- Purchased Debt Ledger ("PDL") acquisitions for the year $133 million driving 30% net growth in the PDL asset base aq
- Sale of mature payment arrangements resulting in $25 million of accelerated cash flow and a net profit of $9.8 million under the Portfolio Enhancement Programme ("PEP")
- FY20 PDL cash collections guidance is in the range of $145 million to $155 million (based on FY20 run rate, excluding PEP) up 16% on FY19

Overall, trading conditions for both the Collection Services and PDL segments were challenging, as financial services sector clients, from whom the Group purchases or manages debt, had to deal with a rapidly changing regulatory environment and general disruption leading into the federal election. While there was short term disruption, the Group is well positioned to deliver an improved FY20 result through substantially higher cash and accounting earnings from the Company's enlarged portfolio of PDL assets.

Anthony Rivas, Managing Director and CEO said "We met our guidance, however, the business is still not at the level we expected with Cash Collection initiatives not delivering until late in the period, and the Collection Services division disrupted by external factors. Further work is required to ensure we are maximising every opportunity to engage with customers and work collaboratively to remedy their financial circumstances. Pleasingly, our process and technology initiatives are delivering improvements, initial evidence of which is apparent post year end, and this underpins our new PDL cash collections guidance for FY20."

Leigh Berkley, Chairman added “We are committed to our strategy of being early adopters of technology and innovative in our utilisation of capital by strategically optimising our PDL portfolio. We have delivered good growth in our PDL asset base this year, and strong growth in the rate at which customers are moving to payment arrangements. The RML acquisition in New Zealand significantly strengthens our presence in that market at a key inflection point. We expect the enlarged customer base and our technology initiatives to deliver improved services to our customers and added value to shareholders in FY20.”

Adoption of AASB 9 Financial Instruments

The Company previously early adopted certain aspects of AASB 139 (now superseded by AASB 9), specifically the requirement to apply amortised cost accounting through profit and loss. The Group adopted AASB 9 in full for the first time in FY19, including applying the effective interest rate (“EIR”) method of revenue recognition and the new requirement to recognise both revaluation gains and losses on its portfolio of PDLs at each reporting date through profit and loss. At 30 June 2019, no revaluation gains or losses were recognised in respect of the Company’s PDL portfolio.

Purchased Debt Ledger (PDL) Segment

The Purchase Debt Ledger segment reported revenue of $93.7 million, up 25% on FY18. This includes a $9.8 million pre-tax profit from the PEP transaction with Balbec previously announced. This transaction liberated capital from mature payment arrangements, lessening our requirement for additional debt capital to fund investments in new PDL acquisitions to drive growth and improved financial returns.

The Group anticipates a year of lower acquisitive growth in FY20 after the exceptional expansion ($133m) in FY19. While market pricing for PDL portfolios remains competitive, we expect $80 – 100 million in PDL purchases in FY20, of which $38 million has already been committed under forward flow agreements.

Collection Services Segment

Collection Services revenue was $67.6 million down 2% on prior year. The shortfall was driven by short term external factors, being the timing of the federal election and the Financial Services Royal Commission which both impacted client activity. As this was expected to be a short term trading downturn, collection resources were maintained during the year. Management considers this a reasonable result during a period of significant market disruption for our clients. Since the year end there has been a return to normal activity, with the first two months of FY20 already back to FY18 levels of revenue and profitability.

Capital Management

The Group’s total assets at 30 June 2019 were $471 million, up 27% on prior year. Net gearing at year end was 48%. The Group continues to generate strong operational cash flow, a significant portion of which is reinvested into the asset base. The Group is working within its facilities and gearing framework and the expected step-up in Cash Collections in FY20 will provide adequate funding to remain very active in the market for PDL books. The Group also retains in-principle access to $100 million of off balance sheet finance through its partnership with Balbec.

People and Culture

The Company is focused on running its business within a framework of values which commits us to make a contribution across a range of stakeholders, including customers, shareholders, clients, employees and the wider community. During FY19, we formalised strategies for better supporting our employees and our customers, reducing our environmental impact and creating more meaningful engagement with wider community initiatives. Collection House recognises that its social license to operate is dependent on continually displaying a culture of transparency and integrity which its clients, customers and the wider community can rely upon. The Group takes these obligations seriously and has comprehensive policies and procedures in place to ensure these high standards of behaviour are achieved.

Technology and Innovation

The Company reaffirms its strategy of becoming an industry leader in the development and implementation of technology solutions which improve customer, employee and client experience, while also generating operating efficiencies. The Group continues to invest each year in the improvement to its market leading collection and customer management platform, C5. During FY19, 8% of collections were generated from the Company's online portal.

Dividend

The Board has declared a fully franked dividend of 4.1 cents per share. The record date for the dividend will be 3 October 2019 and the payment date will be 25 October 2019. In conjunction with the first half dividend of 4.1 cents per share, total dividends for the financial year are 8.2 cents per share. The DRP will be active at a discount of 5%.

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